S. HRG. 103–381

NATIONAL DAIRY SUMMIT

4. AG 8/3: S. HRG. 103-381

ional Dairy Summit, S.Hrg. 103-3...

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

ON

THE STATE OF THE U.S DAIRY INDUSTRY

JUNE 21, 1993

Printed for the use of the
Committee on Agriculture, Nutrition, and Forestry

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Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-043503-X

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MONDAY, JUNE 21, 1993

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EXECUTIVE SUMMARY

FOREWORD

Dairy farmers and dairy policymakers are coming to the realization that the dairy community is going to have to confront unfamiliar and particularly difficult decisions in the coming years. We have always faced significant challenges whenever we attempted to create national dairy policies that benefit all farmers and the dairy industry. Our record of success has not been perfect, but in many instances we have found ways to overcome our differences and worked together in support of policies that help all of dairy.

But we are at a crossroads today. Federal budget deficit concerns and changing public opinion continue to put the Federal dairy program, as well as other national agricultural programs, under considerable pressure. At the same time, our regional differences are being accentuated as populations continue to shift, as changes occur in production and transportation technologies, and as greater emphasis is placed on the world marketplace.

It is for these reasons that I considered it critical that dairy farmers and the industry as a whole begin the process of talking and listening to each other. If dairy farmers are divided there is no chance for us to make the decisions and take the constructive steps that can lead to positive change in national dairy policies. Of course, one other tremendously important factor that led me to call for the National Dairy Summit is the fact that we have a new administration and a new Secretary of Agriculture that is committed to listening to farmers and stresses the importance of rural development. The Summit was a historic opportunity for the dairy industry to present its views to the Secretary, and it is significant that the Secretary remained with us for the entire day. I am pleased to present to you the following transcript of the proceedings of the National Dairy Summit that was held in York, Pennsylvania. The Summit was only a beginning. Even though more discussion needs to occur among the various members and groups within the dairy community before we can find our way forward, we have now started this process. I encourage you to review these proceedings from the perspective of learning where others stand on the issues, and look for common ground. I hope you find these proceedings useful as you consider where we are today and where we need to go in the future.

PATRICK J. LEAHY,
Chairman, Committee on Agriculture, Nutrition, and Forestry.

OPENING STATEMENTS

HON. PATRICK J. LEAHY, U.S. SENATOR FROM VERMONT

Chairman Leahy began the conference by stating that his purpose in calling the session was to give producers and other members of the industry a chance to discuss and recommend policies that would allow the dairy sector to deal with the current economic and political forces such as the budget deficit and international market developments. He described the current situation as one with low prices that are more unstable than at any time since Federal dairy policies were enacted. On the positive side, he noted that the cost of the dairy program and the size of the dairy surplus is much smaller than it was during the last decade.

Finally, the chairman pointed out that there are new opportunities with a new administration and that the industry needs to listen to each other, or "we are never going to find the common ground necessary for national dairy policy changes."

HON. RUSSELL D. FEINGOLD, U.S. SENATOR FROM WISCONSIN

The Senator expressed the view that the industry was at a crossroads, and that decisions made regarding policy options in the next few months would likely determine the course of the industry in the future. He indicated that over the last 13 years Wisconsin had lost an average of 1,000 dairy farmers per year, and that cur-

rently there are only 31,000 dairy farms in the State. He pointed out that the industry faces a range of very complex issues: From food safety to the structural impacts of new technology, from animal welfare to price stability and from market orders to export market development. The two main areas of concern expressed by the Senator related to the Federal Milk Markeing System and the pricing of cheese.

Regarding Federal market orders, the Senator suggested that he had seen data indicating that the Upper Midwest dairy producers could make high-quality milk at costs much lower than the rest of the country, yet they are losing dairy farms every year. Part of the problem, according to the Senator, could be attributed to the Federal order program.

On cheese and milk pricing, the Senator pointed out that it was imperative that cheese prices be set by competitive means. The National Cheese Exchange trades less than 1 percent of the volume of cheese produced and consumed in the United States, yet it is this exchange that is used to price all of the cheese and through the Minnesota-Wisconsin price most of the milk in the United States. He expressed concern that due to the relatively few traders who participated in the exchange, the market may not accurately reflect the value of cheese.

Finally, the Senator expressed interest in trying to improve the level of exports of U.S. dairy products and that these exports should be made by domestic farms. The main objective is maintaining the viability of the industry and survival of the small and medium-sized dairies.

CHRONOLOGICAL LIST OF WITNESSES

Boyd Wolff, Pennsylvania Secretary of Agriculture

The Secretary pointed out that agriculture is very important to Pennsylvania's economy. Agriculture is the State's largest industry. There are over 52,000 farms in Pennsylvania, generating over $3.6 billion in farm cash receipts. This economic activity generates another $38 billion in related enterprises. Dairy is the largest component of agriculture in the State, representing over 40 percent of the State's farm cash receipts with production spread over 13,000 dairy farms. The State ranks fourth nationally in milk production, second in ice cream production, third in butter and sixth in cheese production.

Secretary Wolff pointed out two main areas of concern: The Federal Order Pricing System and the need to promote and market dairy products. Secretary Wolff discussed potential shortcomings in the Minnesota-Wisconsin (M-W) basing point for milk prices and spoke on the merits of changing the pricing system to include protein solids instead of only butter fat. Further, he suggested regional differences cannot be ignored and questioned the fairness of the current assessment plan.

The Secretary's second point related to marketing and promotion of dairy products. He asked the participants to consider new initiatives to improve exports while making sure there are safeguards to protect against unfair foreign competition.

Hon. Harris Wofford, U.S. Senator from Pennsylvania

Senator Wofford expressed his hope that the session would provide an opportunity to listen to the various segments of the dairy industry so they can begin to form some concensus.

Hon. William F. Goodling, a Representative in Congress from the 19th Congressional District, State of Pennsylvania

The Congressman welcomed the delegation and participants to the summit and pointed out that Pennsylvania ranked second in the Nation in total frozen dairy products produced, third in ice milk and fifth in milk cows and dairy product exports.

Hon. Collin C. Peterson, a Representative in Congress from the Seventh Congressional District, State of Minnesota

The Congressman indicated that he had been working with a panel of producers in his State to focus on the issue of the long term future of the dairy industry in Minnesota. The dominant theme of those sessions was that it was time to stop fighting and start working together to try to find a solution. He mentioned that in Minnesota there are a number of young people leaving the farm and he is concerned about where the industry is headed.

He pointed out there has been attention given to the self-help program and it might make sense to give control over market assessment revenues to producers but

there is disagreement over how that should be done. The primary concern regarding the National Milk Producers proposal relates to the makeup of the board and block voting by cooperatives. In the Congressman's view it is a mistake to allow block voting. It would make sense to provide for regional advisory groups.

In Minnesota, there has been considerable attention paid to Class I differentials. While he said he does not think it will be enough to equalize the differential, it is recognized that it will not be possible to take money away from other parts of the country. Given the low class I utilization in Minnesota, it would take $29.00/cwt for class I milk in order to generate the same blend price as producers receive in Florida. Creating a national pool of all fluid milk receipts and distributing it on a national basis would increase prices in the Midwest, but would reduce Florida prices by $2.45 per cwt.

An alternative proposal presented by the Congressman would equalize the Class I differentials across the country and make a pool out of the additional revenues. Consequently, no producers in the country would see a lower price for their milk, but producers in the Upper Midwest would see an increase.

PANEL ONE: THE CURRENT SITUATION FACING DAIRY FARMERS AND THE INDUSTRY

Dr. Andrew Novakovic, Cornell University, Ithaca, NY

Dr. Novakovic indicated it was his understanding that he was to play the role of historian and serve as the institutional memory for the summit. Further, he indicated that the land-grant university system was ready to help work out various policy options.

He stated that there are three major parts to the current dairy program: Federal milk marketing orders, the price support program and dairy import quotas. He explained that there are a number of other policies and programs in place that are not directly part of the dairy program, but that have a great deal to do with the markets for dairy products. These include the Capper-Volstead Act, trade polices, nutrition and food policies and environmental policies. Dr. Novakovic focused his comments on dairy program issues.

The oldest of the three parts of the program is the Federal Milk Marketing Order Program, enacted in the late 1930's. The system evolved from a number of Federal and State programs, with the original classified pricing and pooling actually developed by cooperatives in the late 1800's. Federal legislation codifying these programs was enacted in the 1930's. The programs were developed in reaction to problems in the system during the early 1900's. The concerns revolved around equity between producers and processors, equity among producers serving a market area, the reasonableness of returns to producers, reasonable prices for consumers and market stability. The programs took a number of years to evolve and although the program can be traced to the Agricultural Marketing Agreement Act of 1937, it was not until 1968 that over half of the Nation's milk supply was priced under Federal orders. For all of their history however, Dr. Novakovic pointed out that milk marketing orders are not well suited to creating price stability.

This concern led to the second part of the program, the Dairy Price Support Program that was included as part of the 1949 Agricultural Adjustment Act. This program established a farm price goal for dairy products and then tried to support the price of milk by purchasing surplus dairy products. Dairy import quotas, the third part of the program, are necessary to complement the price support program. Without them, the Government would be required to purchase imported products as well as domestic in order to support prices.

Dr. Novakovic stated that the fundamental concerns that led to these programs remains in place today.

Relative to the recent past, there have been some major changes in the operation of the program and of the dairy markets. In 1982 Government costs for the dairy program exceeded $2 billion, with the Government taking possession of more than one-tenth of the Nation's milk supply. While not all problems are solved, it is important to recognize that the industry has made great strides and that it should get a little more credit for the progress that has been made. Dr. Novakovic indicated that there were still concerns about price levels and price stability. However, the industry has taken and is taking steps on its own to deal with some of these issues. The introduction of futures markets for dairy products is one example. Just as was true 70 years ago, however, there are a number of issues the industry cannot solve by itself.

MR. EWING ROW

Mr. Row indicated that only 6 of every 100 dairy farmers in business 50 years ago are still selling milk today. However, these farms that are left are marketing 70 percent more milk than did the previous generation. Today's cow is producing 3½ times as much milk today as cows 40 years ago.

Mr. Row stated that the majority of the benefits of this increased productivity has not stayed on the farm, but has been passed on to consumers or to those who handle milk after it leaves the farm. The dairy farmers share of the retail food dollar has eroded to only 35 cents, down from 50 cents in 1950. Further, the share of income spent on food has declined so that less than 10 percent of take-home pay is spent on food, and only about 1.5 percent is spent on milk and other dairy products.

Mr. Row addressed three questions and stated that the answer to each was an emphatic no: Are dairy producers making a fair return on their land, buildings, equipment and cattle; are dairy farmers making a fair return on their labor; and third, are dairy farms' returns on investments, labor and management sufficient to make it possible for young farmers to enter the industry?

Mr. Row pointed out that income to producers for the first 2 months of 1993 was off $136 million from 1992 levels. The main cause of the decline was the price of milk. He indicated that cheese prices on the National Cheese Exchange fell substantially in early 1993.

Next, Mr. Row turned to the USDA cost-of-production survey, which indicated that net farm income averaged $25,735 on the population of farms surveyed. This income level represents returns to labor, management and equity. A number of items affected the size of these returns, with herd size being a variable that was a strong indicator. Regional differences in returns were also evident.

Mr. Row discussed data published in the Northeast Dairy Farm Summary, prepared by the Farm Credit Banks of Springfield, Massachusetts. The data indicate that net earnings per cow for the Northeast are volatile. Net returns for assets follow the same pattern and have a dismal 5-year average of 3.4 percent, with an even worse return on equity. The data also indicate that high milk production per cow does not necessarily imply more profitability. He suggested that pounds sold per worker seems to be a better indicator of profitability. At 800,000 pounds sold per worker, profits are apparent. Profitability increases with the number of cows in milk, milk per cow, and investment per worker. Net earnings per cow are $229 for the most efficient producers in the Northeast Dairy Farm Summary data set. It indicates that high production per cow is only one factor in achieving profitability. High levels of milk sold per worker and investment per cow are also important factors.

Mr. Row commented that the regional shift in milk production that is occuring will likely continue. There are higher returns in California, which is to be expected given the higher levels of herd size, production per cow and milk marketed per worker. Milk production per cow increases seem to be greater in this area over time than in other areas.

Commercial use of dairy products is a bright spot, with year over year declines in commercial use occuring only three times in the past 22 years. Population growth has been a major contributor, however per capita consumption remains strong at 564 pounds per capita per year.

Further, Government cost for the dairy program has also declined significantly. Since 1981 the support price has fallen 25 percent and market prices are now above the support price. The result is volatility in milk prices. May 1993 M-W milk prices were up to $12.52 per cwt. Yet cheese prices were under severe pressure at the time of the summit with block prices falling 13.25 cents per pound in the 3 weeks leading up to the summit.

HON. MIKE ESPY, SECRETARY OF THE DEPARTMENT OF AGRICULTURE

Secretary Espy indicated that USDA is dedicated to being farmer friendly and part of doing that is to make improving farm income his number one priority.

One action taken to improve farm income is increasing the farmer-owned reserve to the highest allowable level. USDA has also suspended all farm foreclosures to give the farmers the benefit of the doubt. They want to do everything they can to support production agriculture.

He commented that a recent USDA report confirmed what many dairymen already know. Dairy farmers face a situation where their investments are higher than most other producers, feed demands are very precise, sanitary standards are the highest of any type of operation, hours of labor are probably the longest, and their need of income from farming is greatest, and yet dairymen depend less than other farmers on off-farm income because they do not have the time for off-farm work.

Several actions are pending in dairy policy, including the referendum on the National Dairy Board. The Secretary strongly urged everyone to vote on this issue. He reminded those that are members of a cooperative which decides to block vote that they still have the right, and in his opinion the obligation, to vote as an individual.

Dr. Robert Young

Dr. Young stated the task the chairman gave him was to look at effect on farm numbers of technological change and dairy policies in various dairy producing countries. He framed his discussion by comparing the loss of dairy farms in the United States with declines in other countries.

He evaluated the success of United States dairy policy from the perspective of the rest of the U.S. population. From their perspective, he concluded dairy policy has been successful as there have been declining real prices for dairy products over a number of years. Even with declining prices, the United States has had very adequate supplies on a per capita basis. From a consumer standpoint, there has not been any shortage of milk.

Dairy farms have gone out of business at a much more rapid rate compared to other farms. He indicated that in the United States there has been about a 5- or 6-percent loss of dairy farmers in the last 4 or 5 years compared to 1- or 2-percent rate per year for all farms.

Dr. Young reviewed farm loss data from other countries. Through the 1970s and early 1980s, Japan was losing farms at the rate of about 7 to 8 percent per year. In the mid-1980s, Australia was losing farm numbers at a rate of 4 to 5 percent per year. By the end of the decade as they changed some of their dairy policies, the farm number losses dropped off to about 1 to 2 percent per year. In Canada, which does have a quota program in place, the farm loss numbers have been fairly steady, about 5 percent a year. The farm loss rate in the European Community has been at 4 or 5 percent per year from about 1979 through 1989. In looking across the world, in most cases, farm losses are generally at the rate of 4 to 5 percent per year, similar to the U.S. rate.

New Zealand has moved in the opposite direction of quota programs and has eliminated government support for the dairy industry. Surprisingly, from 1988 through 1991, yearly farm numbers in New Zealand were higher.

Dr. Young presented cost of production data provided by the Farm Credit Bank in Massachusetts. There is quite a range in the cost of production in New England and the Northeast. For the top 10 percent of the producers the break-even price for milk was about $11/cwt. The highest cost producers needed almost $19/cwt in order to break even on their costs. Thus, if a support price or a set price was $18/cwt then the producer that has an $11/cwt cost of production will attempt to purchase the right to produce from the high-cost producer. Even if that producer pays $14/cwt it will be worthwhile for the lower cost producer.

Dr. Young contended that it is wrong to assume that moving to a quota program will halt declines in farm numbers. A quota program would allow the high-cost producer, with production costs of $16-$18/cwt to extract a rent or a fee from the low-cost producer and exit the industry. There are declines in farm numbers across the country. Already there is a shift occuring from high-cost production areas to low-cost production areas.

Dr. Young thinks that whatever policy is started, there will still be a loss of dairy farmers. When evaluating any policy option, it is unreasonable to set a standard of zero percent loss of dairy farms.

Another reason for loss of dairy farms is the age demographics of farmers. The average age of dairy farmers tends to be high, and there will not be as many young dairy farmers to replace them. Technology is going to drive some of this decline. Over the last several years, there has been an increase in production per cow by about 2 percent per year.

He mentioned that one danger of raising milk prices is that it makes substitutes more attractive. He said, "Milk ain't just for breakfast anymore, but Coke ain't just for lunch either."

Dr. Young closed by saying that even with this decline in farm numbers, he strongly suspects that we will continue to have milk. The real question is going to be, where is that milk going to come from?

PANEL ONE DISCUSSION

[During the discussion the chairman asked panel members to comment on specific aspects of their presentations.]

Ms. Meike Doelman

Ms. Doelman says that the industry is in trouble. She agrees that something is wrong because of our unstable milk prices. She described the problem as "when you think of unstable milk prices you think of them of being high or low. Well, our milk prices have been low, lower, and lowest." She pointed out that over the past 5 to 6 years there have been a few very short-lived upswings in milk prices. There seems to an overabundance of milk even with the low milk prices.

The problem to her is the low prices. She said that the choices farmers have when prices are low are to quit dairying and sell their farms so they can try something else, or else increase milk production to pay off their debts. To help correct the problems of low prices, surpluses, and price volatility, Ms. Doelman advocated some form of management for the milk supply.

Mr. John Malcolm

Mr. Malcolm indicated the importance of dairying to Vermont. He said that it represents 90 percent of the State's agriculture and is important to the State's tourism industry.

He said that the dairy industry is very efficient and commented that most industries across the country would enjoy having the efficiency that dairy farmers have developed on their farms. He mentioned that consumers benefit from this efficiency.

He pointed out that farmers cannot survive on efficiency alone. He compared the situation of some farmers to that of companies like IBM and General Motors. A lot of good farmers out there have been making some money and can survive, but there are some that won't, just like in any other industry.

Mr. Malcolm indicated that a big change he sees is that Vermont farmers understand they have to compromise. He said, "Too many times we have postured, all of us on our own ideals, and we have ended up with a goose egg." Recent price drops of cheese shows the urgency and the need to form a compromise.

He contended that we have a supply management system now with the refundable assessments. Farmers need to control the surplus and market it with the same creativity they use on their farm in production. He said he sees a consensus building for the National Milk Producers plan. He expressed his hope that the industry could develop a compromise and avoid the goose egg.

Mr. Gene Paul

Mr. Paul stressed the need to consider what happens to the people involved in agriculture when they leave their farms. He asked that the effects on people be taken into account when structural change is discussed.

He encouraged the industry to come together and unify behind one plan. It needs to be something that will work for the entire industry, not just the processors, who rely on a cheap milk supply in order to make a profit.

In his opinion, increasing milk prices could put more money into the rural economy. He explained that a dollar increase in the price of milk would generate $1.5 billion in additional income, which is the equivalent of creating over 80,000 jobs paying $8 an hour.

Mr. Gary Corbett

Mr. Corbett is involved in the fluid milk processing business with Dean Foods, which operates facilities in about 17 States located around the country. One of the prerequisites of a successful fluid processing operation is an ample and wholesome milk supply. The things that tend to impact the supply of milk also impact the fluid handling sector.

He pointed out that the consolidation taking place at the farm level is also happening in his business. There are approximately 30 percent fewer fluid processors today than 10 years ago. There are 30 percent fewer cheese manufacturers and about 45 percent fewer people engaged in the ice cream business.

Mr. Corbett said he did not know if there is a definitive answer to the dairy policy question but encouraged everyone in the room to look at the consequences of policy changes. The United States is losing dairy farmers at the rate of roughly 5.4 percent a year and in many people's minds this is an unacceptable number. Looking at small business numbers, however, those people are exiting their industries at the rate of about 15 percent a year. He warned that in policy decisions we don't want to jump over into that next category.

A concern of his in limiting or managing supplies is that in elementary economics, a price equation includes supply and demand. He stressed the need to look at the

demand side of the equation because if you pass legislation to limit supply you would need to have legislation that would mandate consumption.

Per capita consumption numbers is a concern in the industry. He said it appears that is holding its own is due to Class III products like mozzarella cheese, rather than his business, fluid milk. Class I products generate the greatest returns to the dairy farmer. Class I consumption on a per capita basis is down 18 percent since 1965 and over the last decade, there has been a 6-percent decrease. If that decrease had not happened and we simply maintained during that period, returns to dairy farmers would be entirely different.

Mr. Corbett said he thinks that farmers have to get away from thinking that the market ends at the farm gate and recognize that there is a consumption side that must be addressed.

Mr. Buckey Jones

Mr. Jones began by saying that the dairy industry is a very complex industry. He referred to Ms. Doelman's comment that the dairy industry is very unhealthy and suggested that we look at the large gains in production in the State of Washington. He pointed out that production is up 7 or 8 percent and speculated that someone out there must be doing well.

He defended the Class I differentials, as the Southeast continues to produce less of the percentage of milk than is consumed there. If Class I differentials were a problem he suggested that milk would be flowing north out of Mississippi into Wisconsin.

He then speculated on the future of the dairy industry. He indicated that the truth of the matter is that there are advances in technologies. Those that are better managers, and those who are good dairy farmers can produce at a lower price. He said he believes that farmers are in competition with one another as well as the world, whether they like it or not.

The dairy industry can and will compete on a national and international basis. He said he feels that the dairy industry can compete on a level playing field with the Australians and New Zealanders and the Europeans as well. The dairy industry cannot compete agains the coffers or the treasuries of the European common market or against other governments. In his opinion, Congress must give dairy farmers the opportunity to compete in free and open markets.

While dairy farmers are concerned about the hunger in this country and the rest of the world he said he does not think they should have to do it at a loss.

The dairy industry is at a crossroads. If nothing is done, there will be survivors. If drastic action is taken, there will be survivors, but there will be trauma within the industry. One cannot ignore the marketplace and the laws of supply and demand. Dairy farmers need to understand that the Nation's 250 million consumers are not the enemy and they should not pit themselves against them. They are the customers and need to be treated as such.

Ms. Charlotte Pellegrini

Ms. Pellegrini informed the summit that dairy producers in Wisconsin are barely surviving. Most are doing all they can to meet their current obligations. Wisconsin has an aging infrastructure and aging farm population and the funds are not there to replace the human resources leaving dairy.

She said she would like to see an investigation of the National Cheese Exchange, and contends that companies like Kraft, Phillip Morris and General Foods are reaping windfall profits while dairy producers are starving.

Ms. Pellegrini wondered why in the 1950's, dairy farmers received $3/cwt for milk and there were 3-cent postage stamps, yet in the 1990's the post office needs 29 cents to survive but the dairy farmer doesn't get $29/cwt for milk.

She related that many Wisconsin farmers want a moratorium on the bovine growth hormone and view the National Milk Producers Self-Help Program as just another board that is going to help itself to the farmer's funds.

More options for direct marketing and working with small specialty cheese firms are what is needed, she said, and there should be other options than working with the cooperatives and the large producer/handlers.

Mr. Don Whorton

Mr. Whorton began his comments by referring to a statement made by Mr. Jones about the increases in production in the State of Washington. Mr. Whorton disagreed with Mr. Jones' assessment that some farmers in Washington were doing well: "Buckey, you just don't get it, they had to produce it to [maintain] cash flow."

He estimated that probably 15 or 20 percent of dairy farmers in this country are making a living, if they don't owe any money, and if they didn't listen to the Extension people 25 years ago and go into a grazing program rather than building silos. He claimed there are only a few making money.

There has been a loss of 55 percent of farms which explains how the United States has lost 150,000 dairy farmers in the last 10 years. Alabama has 298 left.

He reviewed the history of the National Dairy Campaign which he started in 1991. Through this campaign, in talking with dairy farmers from across the country, he said it showed that farmers everywhere are all in the same boat, and producing milk for below the cost of production.

He argued that one can listen to the talk about global trade, but that the United States can't produce the milk for the price that it is selling for on the world market.

He said the only hope is in working together while there are still enough numbers today, if we work together. The only thing dairy farmers can do is to control inventories, which is no different than any other business. Dairy farmers want Congress to give them the tools to control inventories. He stated dairy farmers have two choices. They can go on as they have and listen to the people that have represented them in the past without telling the leadership anything different, resulting in the 5-percent loss in dairy farms every year. Or, producers can get together and tell their cooperatives and their organizations that they want to control inventory through two-tier pricing, and cited polls that show dairy farmers would support that initiative.

At the end of Mr. Whorton's presentation, the chairman asked if he thought the dairy industry has been as effective in meeting and fostering consumer demands as it has in the production end.

Mr. Whorton replied that he thinks the industry probably has not been as effective as it could be. He said the industry should adopt component pricing to reward the farmer for reducing fat production.

Ms. Norma Hanson

The Chairman then asked Ms. Hanson, a dairy farmer from Minnesota, if the change in farm numbers was a good indicator for us to use as a measurement for dairy policy.

Ms. Hanson replied that she is concerned about the numbers of dairy farmers that are leaving the industry. She warned that dairy farmers and consumers should be aware of the need to maintain the supply of milk to feed the world. She said that people should be very concerned that we have enough dairy farmers who are going to supply that product.

Mr. Keith Eckel

In answering the same question as Ms. Hanson, Mr. Eckel said that he thinks the change in farm numbers is one measure that can be used when evaluating dairy policy. From his viewpoint there is not one magical solution, but he mentioned that one thing farmers can agree on is that they want to improve their net income. He stressed the need for the industry to remain competitive and to look beyond Government policy for ways to improve income.

He said dairy farmers deserve more recognition for their contribution to the nutrition of all Americans and for their sacrifice in reducing the cost of the assessments. He contended that the deficit reduction assessment should be eliminated.

He also expressed his support for increased world trade and cited the need to reduce the need to negotiate with other countries to reduce their export subsidies.

Mr. Richard Cotta

Mr. Cotta commented on the implications of the loss of farm numbers and agreed that it is only one indicator. He pointed out that the cost of agricultural programs are the only entitlements to have an annual negative percentage change from 1985 through 1991 and maintained they are the only ones whose costs are projected to decline through 1997. He expressed his support for component pricing and asserted that it should be adopted in all Federal marketing orders. Later in his presentation, he said uniform national standards for milk are needed so consumers can get the same product anywhere in the country.

He also listed some other changes he would like to see. Instead of having assessments refunded to them, producers should be able to contract ahead of time to maintain yearly production and avoid the assessments. The other option he advocated was refunding assessments on a quarterly basis.

He indicated that the Dairy Export Incentive Program (DEIP) should be continued and expanded. He supported the concept of a domestic DEIP program where assessments could be used for domestic feeding programs.

Mr. Jay Goold

The Chairman called on Mr. Goold and asked him to comment on Dr. Novakovic's points on the cost of production and how it can mean different things to different people.

Mr. Goold responded that the cost of production of milk is a very important item to dairymen, but he suggested that farmers ought to strive for more than recapturing the cost of production and try to make some profit too.

In Mr. Goold's opinion, the Government has made out very well on the dairy policies of the past few years. Most farmers agree that some form of supply management is needed and he advocated a policy that will prevent surpluses instead one that focuses on disposing of them.

He expressed his concerns about the recent instability in the industry. If a marketing board is established he made the case that it should have authority and not be subject to scrutiny by the State Department.

Mr. Goold agreed with Mr. Cotta that farmers should be able to contract to maintain their production so they do not have to pay assessments rather than pay the assessment and then have to request a refund. He cited this change as a way to improve the current program instead of considering a complete overhaul.

Ms. Charlotte O'Brien

To begin her comments, Ms. O'Brien said she doesn't think anyone expects a zero loss in farm numbers. People expect some loss in farms due to an operator's age or desire to change occupations. She is concerned, however, that the current rate of loss is too high and that the number of farms going out of business is having a severe economic impact on rural communities.

She described the impacts of farm losses in her southern Iowa town, and how it now has only one machinery dealer when it used to have three. She suggested that economic impact statements be used to assess the effect of farm losses.

She expressed her concern about bovine somatotropin. While she said she does not wish to halt the advance of new technology, she is concerned that only the pharmaceutical companies will benefit from this one.

In discussing the importance of sustainable agriculture practices she gave examples how dairy farming can fit well with this type of agriculture. She concluded by asking who would benefit from the current trade agreements that are being discussed, and how it will affect the farmers in other countries.

PANEL 2: DAIRY POLICY OPTIONS AND ALTERNATIVES

Dr. Larry Hamm, Michigan State University, East Lansing, MI

Dr. Hamm began his discussion of Federal milk marketing order reform by identifying three major stresses on the system: 1) Market price instability caused by a lower support price; 2) an increasing amount of Grade A milk being dedicated to manufacturing uses; and 3) California surpluses, which he says are affecting national prices. He believes national hearings are the best vehicle for reform, and that progress has been made, particularly with the development of the Class III–A price. Among the reforms Hamm would like to see implemented are: 1) Consolidation of orders; 2) binding performance requirements in order operations; 3) interorder revenue pooling; 4) a decoupling of fluid milk markets from fluctuations in manufacturing markets; and 5) consideration of the elimination of the current M-W price as a price mover. Overall, Hamm maintains that order reform has been positive to date but has a long way to go, with the greatest obstacle being the need for a strong consensus, so that regional vested interests can be overcome.

Mr. Fred Douma, California dairy farmer

Mr. Douma strongly supports a movement toward a free-market system, particularly for the Dairy Price Support Program, which he says should be limited to a safety net function. He believes that current policy is on the right track and that the industry is more efficient as a result. He favors adoption of bST and other technologies that give U.S. farmers a competitive edge. Douma finds past supply management programs to be deficient, and cites the Canadian experience as an example of how Government intervention is inefficient. Instead of mandatory supply manage-

ment, Douma believes that industry should practice self-discipline at the cooperative level. He views assessments as being a tax on efficiency, and maintains that future dairy policy will rely on successful resolutions of GATT and NAFTA.

MR. MICHAEL DONOVAN, EASTERN MILK PRODUCERS

Mr. Donovan focused on the role of commercial dairy exports, which he says were largely responsible for the improvement in milk prices in the early 1990's. His cooperative agrees that prices should be strengthened, but not through market controls, which he says distorts the U.S. competitive position in world markets. Instead, they support the National Milk Producer Federation self-help plan (see Clyde Rutherford, below) which he says emphasizes exports. He maintains that the Dairy Export Incentive Program (DEIP) should be expanded since it significantly improved dairy farm income in 1992, and that the Market Promotion Program and other USDA assistance programs are also invaluable to promotion of dairy products. Donovan maintains that the U.S. dairy industry has minimal potential for growth in domestic demand, and should instead explore export markets.

MS. NANCY DANIELSON, NATIONAL FARMERS UNION

Ms. Danielson maintains that all policy should be measured by one yardstick—producer income. She supports a two-tiered supply management program to enhance income and sees three goals of a successful program: 1) Allow farmers to have sustainability; 2) give consumers a high-quality stable supply at an affordable price; and 3) serve as a mediator between producers and processors. She believes current policy has succeeded on supply, but has failed when it comes to sustainability. She maintains that farm milk prices should be set at a level that covers producers' cost of production plus a reasonable profit, and that a base production level should be assigned to each producer so as not to overproduce at the higher price. Danielson believes such a program should be flexible enough to allow new farmers to enter and for bases to be transferred to other family members. She sees a strong need for farmer control of such a program, which in her view must be long term, and would like USDA to reexamine the various supply management proposals that were submitted in 1991.

MR. CLYDE RUTHERFORD, DAIRYLEA COOPERATIVE

Mr. Rutherford spoke on behalf of the National Milk Producers Federation in favor of their proposed self-help program, which he says shifts responsibility for funding and conducting national dairy price stabilization from taxpayers to the producers. He maintains that dairy producers are currently paying 60 percent of the costs of the Dairy Price Support Program through assessments, and should therefore have a greater voice in stabilization policy. Under this proposal, a producer-funded stabilization board would be authorized to purchase up to 2 billion pounds of surplus product (after the Government purchases the first 5 billion pounds) and dispose of it in export markets, as a means of maintaining prices above the support level. To fund the program, a producer assessment of 10 cents per cwt would be required, with additional assessments possible if surpluses are large. Assessment refunds would be possible if producers voluntarily limit production from previous year.

PANEL TWO DISCUSSION

MR. STEWART HUBER, FARMERS UNION MILK MARKETING COOPERATIVE

Mr. Huber believes that dairy is basically a domestic industry which cannot afford to give up Section 22 dairy import quota protection in GATT and NAFTA. On trade issues he also stated that: 1) The Secretary should reconsider various supply management programs discussed in 1991, especially in the context of GATT and NAFTA; 2) deficit reduction and promotion program assessments should be levied on dairy imports; and 3) dairy imports should be required to meet the same standards as domestic milk. Huber takes issue with the Class III–A price, and the concept of decoupling the fluid industry from manufacturing, which he says would hurt Wisconsin producers. He believes that the NMPF self-help plan would only enhance the DEIP program at the expense of dairy farmers, and would lead to a race for base to avoid penalties in future years. He also maintains that Senator Leahy's emergency bill from 1991, that would have given temporary Class I price relief, should be a model for future policy.

Ms. Deborah Van Dyk, Schreiber Foods

Ms. Van Dyk is concerned about the board structure on the NMPF self-help proposal, which she says would not have the necessary knowledge base for international trade. Instead, she supports a supply management program that would allow cooperatives to bid on surpluses, and then create a value-added product that could be sold. She believes that the future lies in new product development, and maintains that the marketplace is the best mechanism to control supply.

Mr. Dennis Rosen, Farmers Union

Mr. Rosen's primary concerns are the effects of negotiating away Section 22 in GATT and NAFTA, and price differentials under Federal orders. He believes that only the Government can determine and mediate justice in the marketplace. He noted that he received the same price last February as in November of 1978, yet the price of cheese has doubled. He believes processors are entitled to a profit, but not at the expense of the producer. He observed that all economic activity has been squeezed out of rural society.

Mr. Ron Morrissette, National Family Farm Coalition, VT

Mr. Morrissette took issue with Fred Douma's statement that the Canadian quota system does not work, by noting that a Canadian 60-cow herd can support two families, while a U.S. herd cannot support one. He believes that a producer cooperative that also engages in processing is a conflict of interest. He noted that dairy farmers need a price that covers their costs of production, and also expressed concern over the inability of many unprofitable farmers to exit the industry, because of the tax consequences of liquidating their operations.

Mr. Robert Giacomini, Western United Dairymen, CA

Mr. Giacomini noted that California producers are just as concerned as the traditional dairy States about the state of the family dairy farm. In response to Morrissette's charge that producer cooperatives and processing are a conflict of interest, he stated that the payment that producers receive each year representing processing profits commonly allows many producers to earn an overall annual profit. Giacomini sees a need for a better working relationship between producers and processors nationwide. He also believes that since producers cannot expect the Government to continue to support the industry as in the past, producers need to go to the marketplace themselves and forge better relations with processors.

Mr. Steve Conerly, Flav-O-Rich Foods, KY

Mr. Conerly stated that all segments of the dairy industry need to be healthy. He noted that both Federal orders and the Dairy Price Support Program are necessary, but in need of some reform. Conerly believes any dairy policy should be market driven, and should not exacerbate the Southeast deficit situation. He also stressed the need to deal with short-term price fluctuations, otherwise long-term survival would be difficult.

Mr. Dana Hauck, National Cattlemen's Association, KS

Mr. Hauck stated that dairy producers and cattlemen are "all in this together," especially since dairy cattle beef accounts for 25 percent of total beef production. He is concerned about any type of dairy supply management that might suddenly or adversely affect meat prices, particularly any program that would require a sudden liquidation of cattle. He stated that cattlemen prefer a free market approach to dairy surpluses, and asked the Secretary to do an impact study of any supply management program that might be under consideration.

Mr. Robert McSparran, Atlantic Dairy Cooperative, PA

Mr. McSparran believes that Federal orders are best reformed through the amendment process, and that the current support price does not provide necessary price stability. Although he agrees with the concept of farm milk prices pegged to cost of production, he thinks it would be difficult to determine a price, and instead favors the NMPF self-help program. He also believes that the primary reason that New Zealand has fewer farmers leaving the industry is not because the country has no government intervention in dairy markets as stated earlier in the day, but rather that fewer employment opportunities are available there.

MR. CHARLES BECKENDORF, ASSOCIATED MILK PRODUCERS, INC., TX

Mr. Beckendorf noted that AMPI had worked 12 years developing a two-tier supply control program, only to be told that Federal budgetary constraints would not allow it. He stated the need for some type of supply management program, and believes that the NMPF self-help program is potentially workable. He also remarked that the United States needs a level playing field to compete with the EC. Beckendorf also cited a number of issues that are of importance in the Southwest, including the need for a Class III–A price, and environmental concerns, which he says require Texas dairy producers to spend more on wastewater facilities than on their milking facilities.

AUDIENCE PARTICIPATION

[Most audience members were dairy farmers; their State, if available, is given.]

Doug Clark (VT): Stated that he does not want his farm taken away, will not give it away, and that farmers need a price of cost of production (COP) plus profit.

Ken Dibbell (NY): Thinks rural America is being destroyed because of the loss of dairy farms; that every farmer should be assigned a feed base (1½ million lbs at COP); and that farmers should be able to enter and exit more easily.

Norma Hanson (MN): Stressed the need for unity and COP pricing. Thinks tax policies should accommodate the passing of the farm to the next generation while living, and provide an investment tax credit for farm modernization.

Allen Schmidt (KS): Believes that the loss of dairy farms has had serious consequences for rural America. Sees the need to increase and stabilize prices at a reasonable level, and supports COP pricing.

Alice Eagen (NY): Opposes bST use, believes that policies are responsible for forcing her off the land. Maintains that if farmers were given a COP price, the whole country would benefit because farm spending fuels the economy.

John Miller (VA): Noted that new somatic cell count standards require a high quality product; that environmental concerns are going to affect dairy farm income; and that nutrition education, Extension, and conservation are important.

Ed Slusarczyk, Ag Radio Network: Concerned about misleading advertisements from dairy competitors (margarine), which portray dairy products as unhealthy.

Bob Wellington, Agri-Mark Dairy Co-op: Discussed the experiences of Northeast States in mandating higher farm milk prices, which he says evoked no negative responses from consumers.

Arden Tewksbury (PA): Supports two-tier and COP pricing, wants milk prices to return to mid-1990 levels.

Donald Smith (KY): Says that although Dairymen, Inc., is officially opposed to two-tier, 70 percent of membership still supports it.

Terry Foley (MD): Wants higher prices through COP pricing, and is concerned about income effects of Class III–A price.

Tom Donley (PA): Concerned about the future of youth in farming and rural America. Notes that there is a program which improves career skills through experiential training.

Bruce Krug (NY): Supports bST moratorium, and two-tier plus COP, opposes the NMPF self-help plan, and defends the Canadian quota system.

Lynn Forkel (PA): Concerned about "fixing" of baby formula prices, and wants supply management.

Lynn Hamilton (PA): Supports mandatory two-tier pricing, and noted how farmers are unable to plan without higher, stable prices.

Lee Light (VT): Supports COP pricing, concerned about effects of trade agreements on dairy.

Madeleine Flogel: Asked the Secretary to please leave his door open to dairy farmers, concerned that many farmers have not even seen the self-help proposal.

Robert Gable (PA): Wants self-help program to be considered, and is concerned about the marketing of dairy products both domestically and abroad.

John Hathaway (NY): Noted that there is no crisis in processing or retail, just in production, supports two-tier plus COP.

Ralph McGregor (PA): Supports a free market, and warned the Secretary not to be swayed by the emotionalism of this summit or a crisis will develop.

Robert Junk (PA): Takes issue with the self-help plan and especially opposes the assessments and the board. Views two-tier pricing as a commonsense, long-term policy of getting supply in line with demand.

Jowan Lee, Women Involved in Farm Economics: Concerned about charges that mandated higher milk prices will affect WIC participants. Says that farmers are suffering just as much.

Harold Howrigan (VT): Believes that self-help deserves some attention, and that people ought to recognize the service that co-ops provide to their members.

CLOSING REMARKS

Secretary Espy

The Secretary stated that his primary purpose for attending the summit was to listen, and he reassured farmers that something needs to be done to get farm milk prices above their cost of production. However, he cautioned that short-term fees that lead to long-term instability should be avoided. He noted that USDA has taken a number of steps to make the agency more "farmer friendly," by treating farmers with more respect and instituting policy changes such as a foreclosure moratorium on farmer loans, and making available crop quality disaster payments. Secretary Espy also noted that the United States needs to attack export markets through continued use of the USDA export programs, which he views as a means of enhancing farm income, and says he believes in using Section 22 to combat unfair trade practices. The Secretary stated that U.S. economic growth is very much dependent on a strong agricultural base with decent income.

Senator Feingold

Senator Feingold observed that there is a need for a consensus within the dairy industry, in order for any new policy to be successful. He stated that several pending policy changes—such as bST, NAFTA, GATT, and the elimination of Section 22 import quotas—need not be blindly accepted. He also believes that equity and efficiency should be more carefully balanced, and that policymakers should consider whether the ongoing reduction in dairy farm numbers is good policy.

Congressman Peterson

Congressman Peterson pointed out that he introduced a two-tiered supply management bill in the House, and also stressed the need for a consensus among dairy groups. He noted that Minnesota dairy groups have been meeting in an attempt to reach a statewide consensus. Although he finds some aspects of the NMPF self-help plan to be positive, he expressed disapproval of the board structure.

Secretary Wolff

He expressed his hope that all participants take the information presented at the summit, digest the facts, and try to find a way to maintain the economic viability of farmers.

Senator Leahy

In conclusion, Chairman Leahy stressed that dairy producers are entitled to the same kind of recompense, profit, and way of life as producers of other necessities for America. He said he believes that our Nation's power, wealth, and security are derived from the fact that we feed not only ourselves but other parts of the world as well.

NATIONAL DAIRY SUMMIT

MONDAY, JUNE 21, 1993

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The committee met, pursuant to notice, at 10:08 a.m., in the Old Main Building, York County Fairgrounds, York, Pennsylvania, Hon. Patrick J. Leahy, chairman of the committee, presiding.

Present or submitting a statement: Senators Leahy, Wofford, and Feingold.

STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM VERMONT

The CHAIRMAN. If we might come to order, I do want to thank everybody for being here. It is an important day, and I know, especially here in the Northeast, we have a lot of farmers who are in the middle of haying season. They certainly are in my State of Vermont, and to take the time to come here means a lot.

Just to show that we all experience some of the same difficulties, I understand the Secretary has car trouble and is on his way. I was in Vermont yesterday afternoon, and rather than take the chance, I flew back to Washington last night, picked up the car and came up here.

For those who have not met me, I am Patrick Leahy. I am the chairman of the Senate Committee on Agriculture, Nutrition and Forestry, and I proposed this meeting early this year. I want to note with a great deal of appreciation the fact the Secretary will come here and spend time with us on this important issue. I do not know of any similar circumstance where we have had so many key people from the Congress, the House and the Senate, as well as the Secretary of Agriculture, involved.

Perhaps even more importantly, though, I do not know of any time when we have had so many people involved in dairy farming from across the country as we have here today. And it is actually your presence that gives me the greatest amount of confidence that we can succeed.

I wanted to give the dairy farmers and the industry as a whole a chance to discuss and recommend dairy policies that could help them deal with the economic and political forces we see at work: the budget deficit; unstable, and often low, milk prices; international market developments. The situation is this: Dairy prices are more unstable than they have ever been since Federal dairy policies were created.

We do not face dairy surpluses and none are expected in the coming years. But still, many dairy farmers are finding it hard, if not impossible, to stay in business. It is an anomaly that is not supposed to happen, but is happening.

I am not coming into these meetings with any preconceived agenda. I have talked to a number of you in the audience this morning in meetings in my own State. I do not have a magic piece of legislation in my pocket or a preconceived agenda. What I do want is a forum where everybody and all points of view get to be heard.

I know the dairy community is divided, but I hope that we can find common ground we can build on. There has seldom been a great deal of consensus in dairy policy. But we have a President who tells me that he would like to see us reach one and a Secretary of Agriculture who is committed to work with us to find one.

It is a new opportunity. We start with a fresh page, a new adminstration, and a new opportunity for dairy farmers and other members of the industry who never get to talk with each other. But I have you sitting down here in the same room, and I see a lot of people who have been at the opposite ends of questions before some of my committee meetings that are here talking, chatting, smiling. I hope you are still talking at the end of the day, because if we do not listen to each other, we are never going to find the common ground necessary for national dairy policy changes.

Some of you are probably saying the same thing that some of my staff and others might say, "Well, all we need is one more dairy meeting." But this could be different. It is different than any we have ever had before, with the factions that are here, with the Secretary and key Members of Congress. And so, I am going to hush at this point and let a couple of the others make some statements here.

We have the Pennsylvania Secretary of Agriculture, Mr. Boyd Wolff, who is here. And I am delighted, Secretary Wolff, that you are here. He is doing double-duty today, something that he is capable of doing at any time. He is also filling in for the Governor who, as you know—those of you are from other parts of the country—the Governor has just gone through extraordinarily serious surgery. I have been advised and am very thankful that the Governor is continuing to progress very well.

Mr. Secretary.

STATEMENT OF HON. BOYD WOLFF, PENNSYLVANIA SECRETARY OF AGRICULTURE, HARRISBURG, PA

Mr. WOLFF. Thank you, Senator Leahy.

Senator Wofford, welcome back to Pennsylvania.

Welcome, Representatives Goodling and Peterson. I am pleased to welcome you, on behalf of Governor Casey and myself, to Pennsylvania. We are honored that you have selected our Commonwealth for the country's first National Dairy Summit. Your choice is appropriate.

We are a major agriculture State with a major interest in dairy issues. Agriculture is Pennsylvania's largest industry. Our 52,000 farms produce commodities with a farm-gate value of $3.6 billion and churn up another $38 billion in economic activity. And by far, the largest part of our agriculture industry is dairy related. $1.5

billion, over 40 percent of the $3.6 billion I mentioned, comes from our 13,000 dairy farms.

Together, they produce over 10 billion pounds of milk, 8 percent of our Nation's milk supply. We now rank fourth in the Nation in terms of total milk production. Our food processing industry adds $6.5 billion to the value of our farm products, and a very large portion of that is also due to our dairy industry.

We are second in ice cream and ice milk production, third in butter and sixth in cheese production. These figures show why we in Pennsylvania are interested in your proceedings today. There are many issues that need our attention. I would like to briefly mention two: The Federal Order Pricing System and the need to promote and market our product.

First, the Federal Order Pricing System; I would like to ask the following questions: Is setting the price on the M-W prices still appropriate? Should we not consider the protein in solids not fat, instead of only butter fat, in pricing our products? Should we continue to ignore regional differences in the cost of producing milk? And is the current assessment plan fair to dairy farmers?

In regard to marketing and promoting our products, I would ask: How do we build on the successes of our current promotion programs? What new initiatives, or continuing old initiatives, are needed to increase our exports? What safeguards are needed to protect our dairy farmers from unfair foreign competition?

These are just a few of the many issues that challenge our dairy farmers. I am impressed by the quality and the diversity of the speakers who made the effort to come here today. And I thank Secretary Espy—when he gets here, I will—and Senators Leahy and Wofford coming beyond the beltway of Washington to listen to the many people here today interested in the dairy industry.

My hope for today's dairy summit is that it be a start to design a milk-marketing strategy that will keep our dairy farmers economically viable and allow their children to be part of agriculture in the next century. I am optimistic that it will be.

Thank you. I will now turn the mike over to Senator Wofford.

The CHAIRMAN. I might add that, before coming up here, I talked with Senator Wofford about the fact that we were going to be here because I know that he is in Pennsylvania just about as much as he is in Washington. And we in the Senate find that valuable because he brings the views of the people from Pennsylvania very, very strongly and very constantly to us.

STATEMENT OF HON. HARRIS WOFFORD, A U.S. SENATOR FROM PENNSYLVANIA

Senator WOFFORD. Senator Leahy, Secretary Wolff, fellow Pennsylvanians, we all join in welcoming our friends from around the country to this crossroads of America and this center of the dairy industry here at York.

I am glad, if you have not met Patrick Leahy, you are doing so today. No one in the Senate helped me more when I arrived there, and I have enjoyed working closely with him. I think he is one of the truest and straightest men I have seen in public service. And you will enjoy getting to know, if you can today, our new colleague from Wisconsin—relatively new, newer than I am—Russ Feingold,

who is going to represent this industry very well in the U.S. Senate.

My Staff Chief of Operations, who is a former dairy farmer—now he is just in beef cattle because he is not there to milk the cows every morning—Russell Reading, said if you are going to go and hear a lot of people talking, you ought to start the day at a farm. And so he got me over to the farm of Earl and Evie Landis in Manheim, in Lancaster County, at 6 o'clock this morning for a couple of hours. I tried my hand at milking after several years. The old-fashioned way still worked a little, but the new machines were marvelous to see in operation.

Earl says that it is a little easier now with the technology, but a lot riskier if you make a mistake. And in a sense, when we were talking—and we did a little talking while milking and the milking still got done. And then, as we were saying at breakfast, it is the same thing with the industry and the economics of the industry. It is more complicated now and if we make mistakes, they can make a lot of difference to everyone.

So I hope that today you hear good, strong arguments on the different viewpoints represented here on the kind of partnership between Government and industry that we need, and the directions we need to go in the Federal Government. We hope to get that sense of both goals and strategy toward it clearer here today. And this, Pat Leahy, is a good place for you to come to do it.

I hope this summit will be a true opportunity to hear the arguments and to be part of it, and for us to hear them. And I, as somebody that has done a lot of listening, I know that not everyone here is going to talk, though a lot of you are, but if the arguments are well made, as I think the people that are first starting out on the panels are going to do, it does not really matter whether the arguments come out of our mouths if they are well made and the issues are sharpened. And I think that is going to happen today.

So I welcome you here. And I might add, Pat, that I talked to Governor Casey's wife, Ellen, yesterday evening. And it is quite a marvel of modern medicine, modern technology, what has happened with the Governor. Ellen told me his strength is increasing every day.

Thank you.

The CHAIRMAN. Thank you, Harris. I could not help but think if anybody could make it through on sheer willpower, I think Governor Casey could. As chairman of the Senate Agriculture Committee, I sometimes feel like the Secretary General of the United Nations as I look around my committee because of the diverse interests. You try to balance corn growers, wheat growers, soybeans and everything else.

And as a result, after the elections this past fall, I eagerly sought a new member on that committee so I could have at least one other person on that committee besides myself that I could talk dairy issues with; not only that, because of the experience he has in the Wisconsin legislature before and the fact that he was considered one of the best we have elected in a lot of years.

So I am delighted to introduce Russ Feingold. Senator Feingold of Wisconsin is the newest member of the Agriculture Committee and came——[Applause.]

Let's hear it for Wisconsin. [Applause.]

And they heard a huge sigh of relief in Vermont when I had somebody else who could talk dairy with me. Russ, it is off to you.

STATEMENT OF HON. RUSS FEINGOLD, A U.S. SENATOR FROM WISCONSIN

Senator FEINGOLD. Thank you very much, Mr. Chairman.

I want to thank the Commonwealth of Pennsylvania for hosting this summit, and I want to thank Chairman Leahy for calling this hearing. It has been a wonderful experience working with this chairman, who not only understands the dairy industry but who also is a very kind and decent person to work with for a new Member of the Senate.

It is wonderful, also, to work with a person like Senator Wofford, who I admired, watched his campaign and thought if I could only do like this gentleman, maybe I, too, could get to the U.S. Senate. It has happened, and I am pleased to be here.

I want to thank in advance Secretary Espy as well. People have asked me, throughout the State of Wisconsin, whether the Secretary will be attentive to the needs of the dairy industry. Given the demands on Secretary Espy, it is impressive that he is devoting an entire day this dairy summit.

So I am pleased to be here today after 10 years as a member of the Wisconsin State Senate Agriculture Committee. I know it is a fairly rare opportunity for policymakers to hear from so many different representatives and experts on all sides of the dairy industry in one location and at one point in time.

I have heard many dairy farmers from my State say the obvious, that the industry is at a crossroads, that the policy choices we make in the upcoming months will very likely determine the future of the dairy industry, and they have asked me to carefully and wisely consider the issues.

I have made a commitment to the dairy farmers in my State to do just that. There is more at stake here than just the facts and figures that we will hear today. Facts and figures are important, but we always have to remember that this involves real people with real livelihoods.

Today, there are only 31,000 dairy farmers in Wisconsin. In 1980, there were 45,000 dairy farmers in Wisconsin. Wisconsin loses, on average, 1,000 dairy farmers per year. These, again, are just facts and figures that can be easily dismissed as another indicator of structural change in the dairy industry, but among the 14,000 fewer dairy farmers are my friends and neighbors. We should never forget the people behind the numbers.

That is why I am pleased to see so many dairy farmers on the panel today, because when we talk about dairy policy, it is crucial that dairy farmers play a significant role in the policymaking, not just the bureaucrats and the politicians in Washington, of which, of course, I am one.

Everyone in this room knows that as an industry we have been and will continue to be confronted by very complex issues, all the way from food safety, structural impacts of technology, including BGH, BST, animal welfare questions, price stability and inventory management, marketing order reform, and export market develop-

ment. These are not simple challenges. We can't address all of them today but I get the feeling we are going to hear about quite a few of them.

Those of you who know me also know that I am extremely concerned about the current Federal Milk Marketing System, as the Secretary of Agriculture mentioned. I am concerned that the system is negatively affecting Wisconsin's ability to compete in a national market. All data indicate that Upper Midwest dairy farmers can produce high-quality milk at costs much lower than other areas of the country, and yet we are losing dairy farmers every year. I am looking forward to learning today how we might help correct that situation.

I am also concerned about the way in which cheese, and therefore milk, is priced in this country. Since cheese prices drive milk prices, it is imperative that the cheese market and the resulting prices be set through competitive means. Unfortunately, the only cheese exchange in the country, the National Cheese Exchange in Green Bay, Wisconsin, trades less than 1 percent of the volume of cheese in the United States and has relatively few traders, yet most cheese in the country is priced off of the price discovered at the Exchange.

I fear that the prices set in that market may not fairly reflect the value of cheese and the milk from which it is produced. This is especially disturbing in light of the further dramatic drop in cheese prices that occurred just this last Friday. Dairy producers will feel the pain of that price decline in next month's milk checks. As we discuss supply management and market stabilization later today, I will be interested to learn from our panelists and presenters how they feel about that issue.

Just quickly, Mr. Chairman, one other point. I am very interested as a member of the Senate Agriculture Committee and also a member of the Foreign Relations Committee what we can do with regard to exporting milk products. Some farmers from Wisconsin met with me recently and pointed out to me that under the DEIP program there have been some successful opportunities for export, but that most of the exporters are foreign-based or foreign companies.

Isn't there an opportunity, perhaps, to have American or even Midwestern export companies develop some of these export opportunities and perhaps develop the relationships directly between Americans and these countries instead of simply doing it in the indirect route?

The paramount issue, however, is the overall issue of the viability of the industry and the survival of small and medium-sized dairies. I hope today's discussion can shed some light on how we should proceed to improve the health of the dairy industry and to promote profitability for the dairy farmer.

So I look forward to a productive and effective discussion, and Mr. Chairman, I do sincerely thank you for making this possible.

The CHAIRMAN. Thank you very much, Russ, and I appreciate your being here. [Applause.]

I also appreciate all the folks you brought here from Wisconsin.

We have the opportunity of being in the 19th District of Pennsylvania, which is represented by Congressman Goodling. The dis-

trict not only has the same population as my own State of Vermont but almost as many dairy farmers.

Bill, I am delighted you could take time to be here with us today, and I yield to you.

STATEMENT OF HON. WILLIAM F. GOODLING, A REPRESENTATIVE IN CONGRESS FROM PENNSYLVANIA

Mr. GOODLING. Thank you, Senator.

I would like to welcome my good friend the Secretary when he gets here, our former colleague, Mike Espy, and also Senator Leahy, and apologize to Congressman Peterson and Senator Feingold and also Senator Wofford. I only brought two goodie packages from the Goodling Orchards and the Brown Orchards and Bake Shop. I guess I will have to deliver both of them——

The CHAIRMAN. This may sound like a commercial, but I would advise you that there is so much in there I am happy to share mine.

Mr. GOODLING. I will bring them some. You can keep it all.

I would like to welcome you to the 19th District and also offer a warm welcome to the various dairy industry experts from around the country to the York County Fairgrounds to discuss the pressing dairy issues facing our country and its farmers. I appreciate that the Senate and the Secretary recognize the difficulties and the challenges facing dairy farmers today, and I have quite a few of them in all three counties.

I am pleased that the Department of Agriculture and the Senate Agriculture Committee have chosen York to host this important National Dairy Summit. York County, in south-central Pennsylvania, the 19th Congressional District, boasts model dairy farms which are noted for some of the most innovative dairy farming techniques used in this country and around the world.

The excellence is illustrated not only in reviews given Pennsylvania dairy products but also in sheer statistical ranking. In 1990, Pennsylvania ranked second in the Nation in total frozen dairy products produced, third in ice milk, fifth in milk cows and export dairy products. Agriculture remains the number one industry in the commonwealth and dairy remains the leading segment of that entire industry.

I deal with this a lot in school lunch, child nutrition, and WIC on the Education and Labor Committee. When Congressman Gunderson and Senator Jeffords, who was Congressman Jeffords at that time, were on the committee with me, I always used to say that if they had it their way there would be 5 hours of recess and school lunch and 2 hours of classes because they wanted to sell more milk. They are still out there pushing.

The issues facing American dairy farmers today are complex and difficult, and I hope the National Dairy Summit will address those concerns and bring attention to the problems and difficulties facing dairy farmers today.

Again, I want to welcome you for coming to God's country, the 19th Congressional District in Pennsylvania.

The CHAIRMAN. Thank you very much, Congressman.

Again, as I said, I will be happy to share the goodie package, but not too much of it.

Mr. GOODLING. The pie is still warm.

The CHAIRMAN. The pie is still warm, I am told, and you cannot believe the temptation.

Mr. GOODLING. And there is milk in there with the apples.

The CHAIRMAN. There had better be milk in there with the apples. I had my glass of milk at breakfast this morning.

We are joined also by Congressman Peterson from Minnesota, who is a strong supporter of the dairy industry and has worked with so many of us in the past. You also have brought a number of folks from back home, so let me yield to you, sir.

STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM MINNESOTA

Mr. PETERSON. Thank you very much, Senator.

I want to commend you for pulling this together. As I look around the room, I see folks from all over the country, and I think that this can only be useful.

We have a lot of concern in my State about the future of the dairy industry, so I have made this kind of a priority. I think it is a good time for us to be talking about this, when we are not in a crisis situation and milk isn't at 10 dollars, it is probably a good time for us to be focusing on these issues.

In my State, we have been doing something similar. I convened a group of producers, economists, academics, State legislators, Department of Agriculture. We have been trying to come to an agreement within the State of Minnesota of where we think dairy policy ought to go, so we have been doing something similar to what you are doing here at the State level.

If we are going to accomplish anything we have to quit fighting each other and start working together to come up with a viable solution to the future of this industry.

We in Minnesota are concerned because young people are leaving the farm. I hear a lot of young dairy farmers say that they can't see the future, and we are very concerned about where this is going, so we have been meeting on a regular basis.

We spent quite a bit of time talking about the self-help program, which was being worked on while we were having these meetings within the National Milk Producers Federation, and we generally think that it makes sense that we give producers more control over their assessments and over their marketing strategies.

The budget reconciliation that is now, I guess, going to be going to 16½ cents is going to be there anyway, whether we do anything or not, so it probably makes sense for us to look at the opportunity of taking that assessment and giving it over to the control of the farmers.

We have some disagreement within our group as to how this ought to be done, but in general I think people think that this is something that ought to be looked at and we ought to see if we can make it acceptable to everybody.

As I have read the legislation that has been put forward, I guess the primary concern that I have and some of the folks in my State have is with the composition of the board. I think, first of all, it could maybe be a little bit smaller, in my opinion, and I am concerned about the aspect of block voting. I really think that it is a

mistake to be allowing block voting in the creation of this new self-help board. [Applause.]

I also think that it would make sense that we have some advisory groups for each region, where they would have the opportunity, each of the farm groups, to come in and work with their representatives from the region so we could get more input from ordinary folks.

We also have been concerned in Minnesota about the Class I differential, and I hope it is all right if I go on just a minute here. I don't have an opportunity very often to have this kind of a group. We have a handout that I would encourage people to take. I think we have a couple hundred of these, and I think it would help people get a better understanding of the Federal order system and the way it works. We have them at the table.

What we looked at were a number of different ideas and trying to equalize the Class I price differential. Now first of all, we understand that we can't be taking money away from any other part of the country, and we don't think that is a smart thing to do and that is not what we are about.

But if you take a look at this chart, in order for us to equalize the situation in Minnesota, it is not enough just to equalize the Class I differential because we have such low utilization in Minnesota. You will see in one of the charts here that we would have to raise the price to $29 in order for us to get the same price as they do in Florida. So obviously that isn't going to happen, and it shouldn't happen.

Secondly, there has been this idea of creating a single national pool that has been talked about by some people in the House, at least. I don't know if it has been talked about in the Senate. And if we did that, that would increase the price 87 cents for Minnesota producers but it would reduce the price $2.45 in Florida. This isn't going to happen, and I don't think it should happen.

So we have looked at another idea that we would like you to consider, and that is equalizing the Class I price but making a national pool of the new money. We have a chart that shows what happens with that. Nobody in the country loses anything. We in the Midwest gain a little more, maybe, than others, but everybody that is below the Class I price of $14.56 would have some increase. I think it is maybe something that we could sell on a national basis and maybe is a place that we could start looking further at this issue.

So I would encourage everybody to take a look at these handouts. We have had some work done by some economists and I think that it will point out some good information about the pricing structure and the Federal order structure in the country.

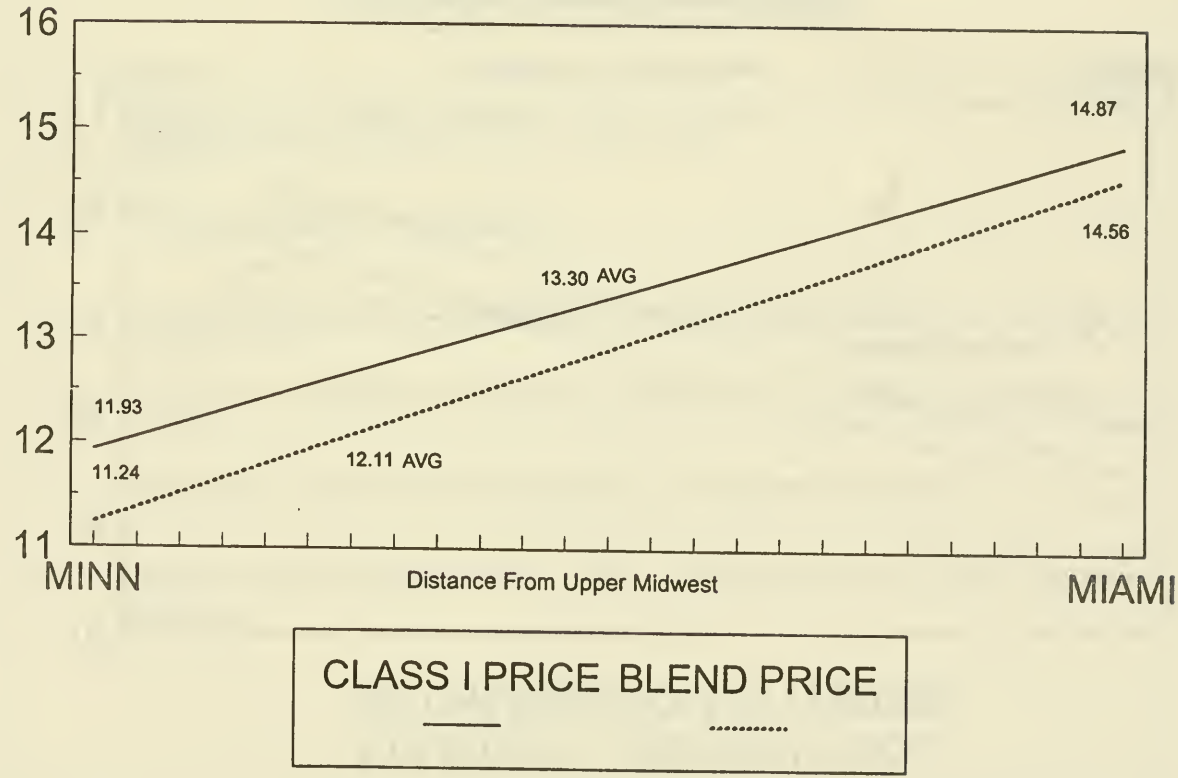
Again, Mr. Chairman, I thank you very much for convening this summit. We want to work with you and we are concerned about our industry in Minnesota and Wisconsin and we hope that something useful will come out of this meeting today.

[The charts referred to by Mr. Peterson follow:]

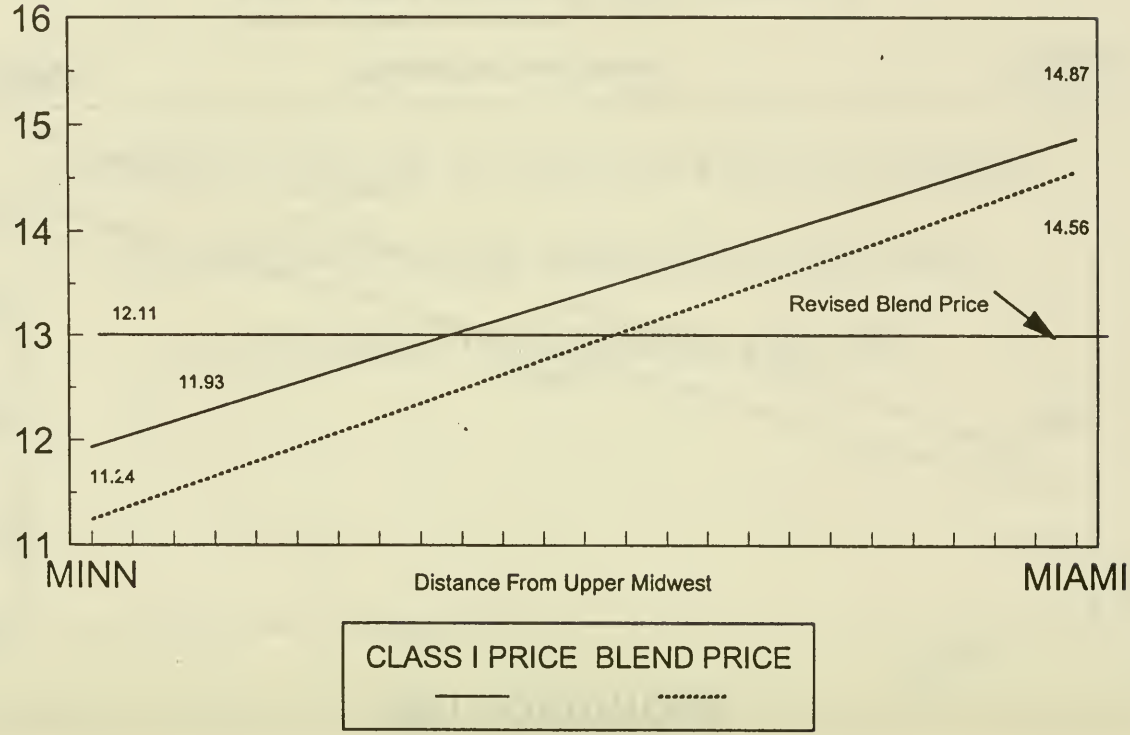
EVALUATION OF ALTERNATIVE STRATEGIES FOR REDUCING THE REGIONAL DISPARITY IN FEDERAL MILK ORDER PRICING

P. Christ
5/7/93

1991 CONDITIONS



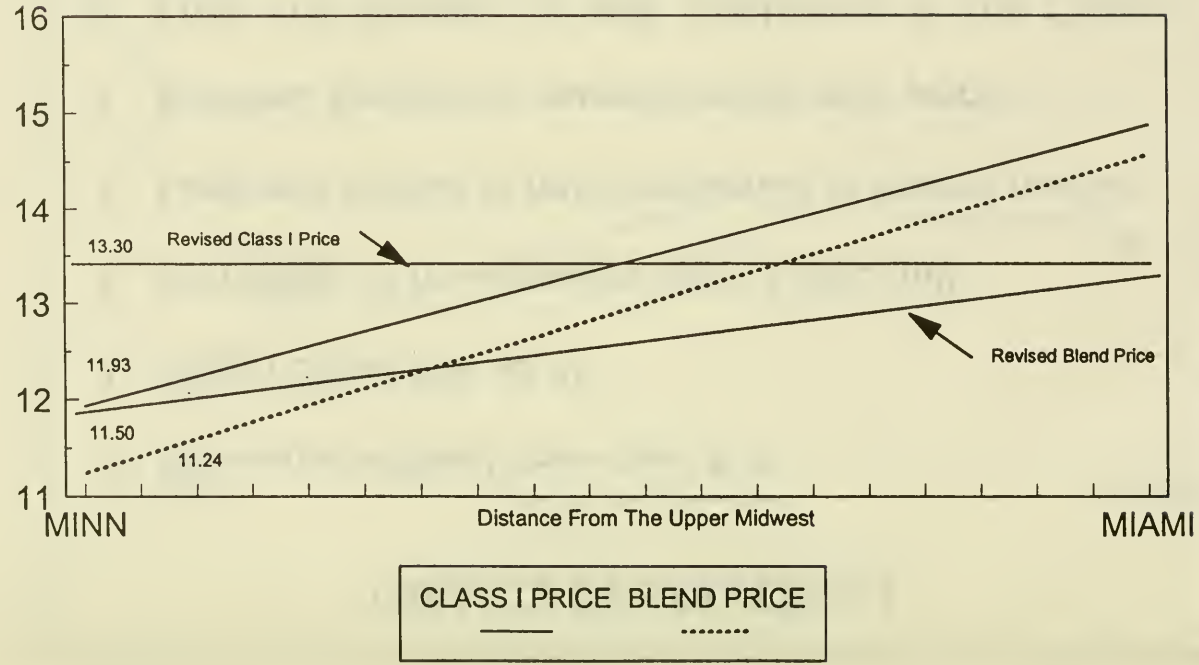
STRATEGY 1: NATIONAL POOL
NO CHANGE IN CLASS I PRICES



IMPACTS OF STRATEGY 1

1. Minneapolis Blend Price rises $.87
2. Miami Blend falls $2.45
3. No change in the consumer cost of fluid milk
4. Long run decline in milk production in distant markets
5. Eventual increase in manufacturing milk prices
6. Long run increase in milk production in the Upper Midwest

STRATEGY 2: INDIVIDUAL MARKET POOLS FLAT CLASS I PRICE AT $13.30 (AVERAGE)



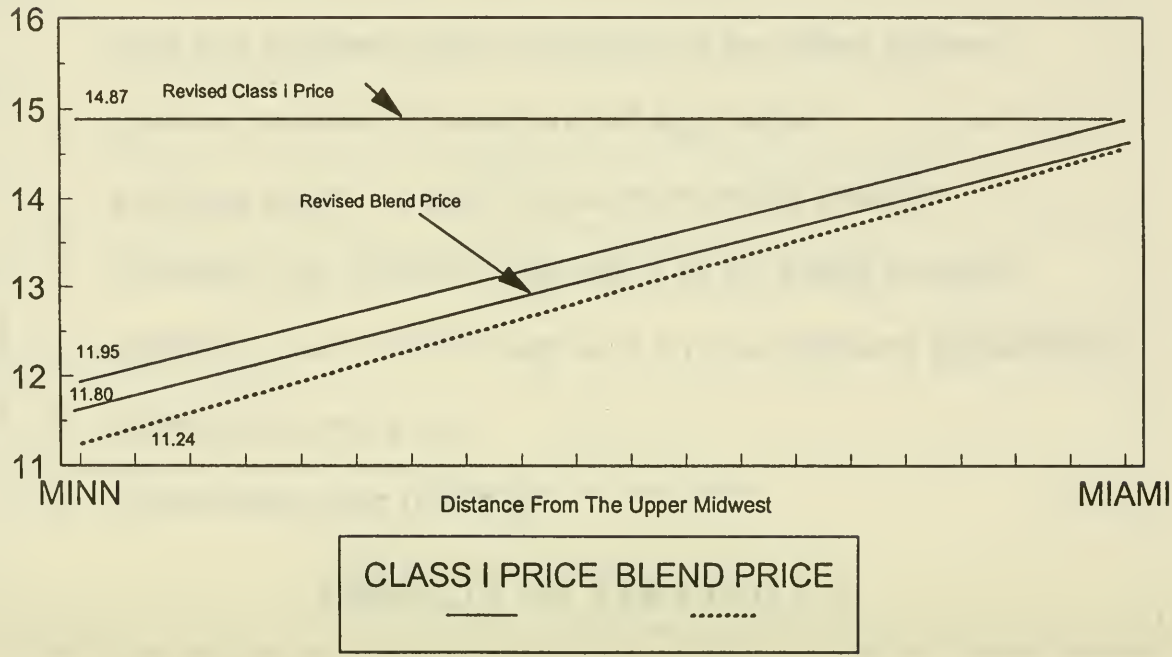
IMPACTS OF STRATEGY 2

1. Minneapolis blend rises $.26
2. Miami blend falls $1.43
3. Consumer cost of Class I milk rises $.12 per gallon in Minneapolis
4. Consumer cost of Class I milk falls $.14 per gallon in Miami
5. Long run decline in milk production in distant markets
6. Eventual increase in manufacturing milk prices
7. Long run increase in milk production in the Upper Midwest

NOTE:

A system of transportation credits would be needed to facilitate the movement of milk between markets.

STRATEGY 3: INDIVIDUAL MARKET POOL
FLAT CLASS I PRICE AT $14.87 (HIGHEST)



IMPACTS OF STRATEGY 3

1. Minneapolis blend rises $.56

2. Miami blend stays the same

3. Consumer cost of Class I milk rises $.25 per gallon in Minneapolis

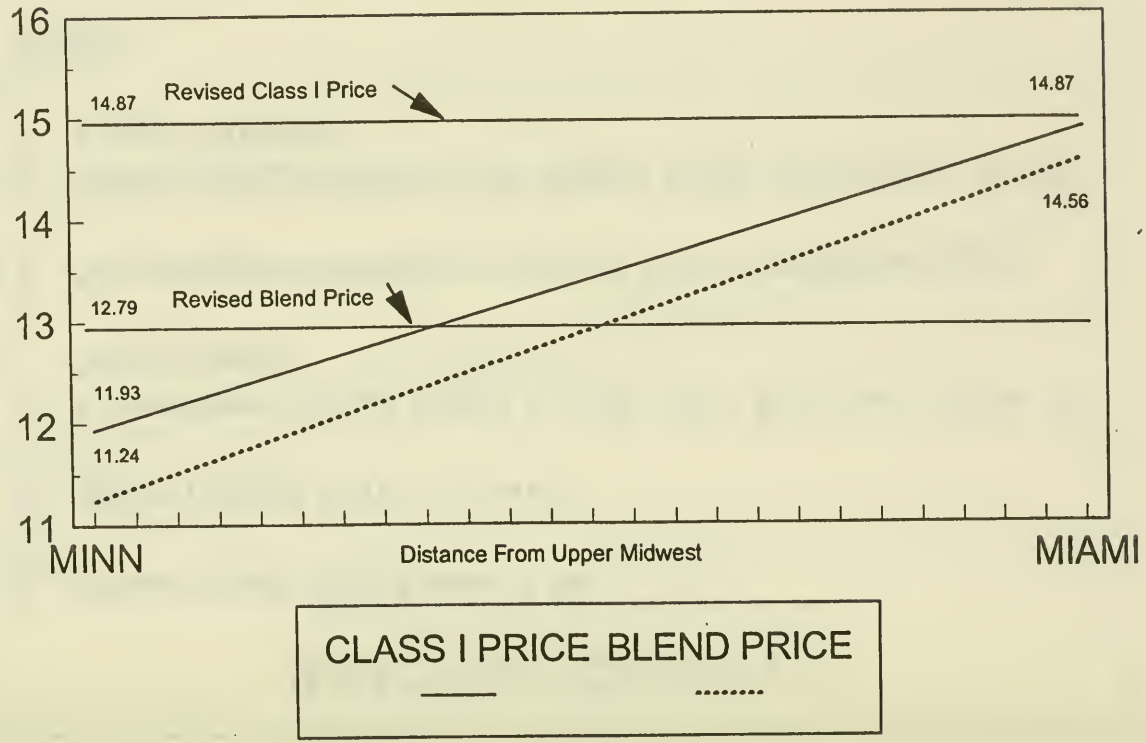
4. No change in consumer cost of Class I milk in Miami

5. Some encouragement for higher milk production in the Upper Midwest.

NOTE:

A system of transportation credits would be needed to facilitate the movement of milk between markets.

STRATEGY 4: NATIONAL POOL
FLAT CLASS I PRICE AT $14.87 (HIGHEST)



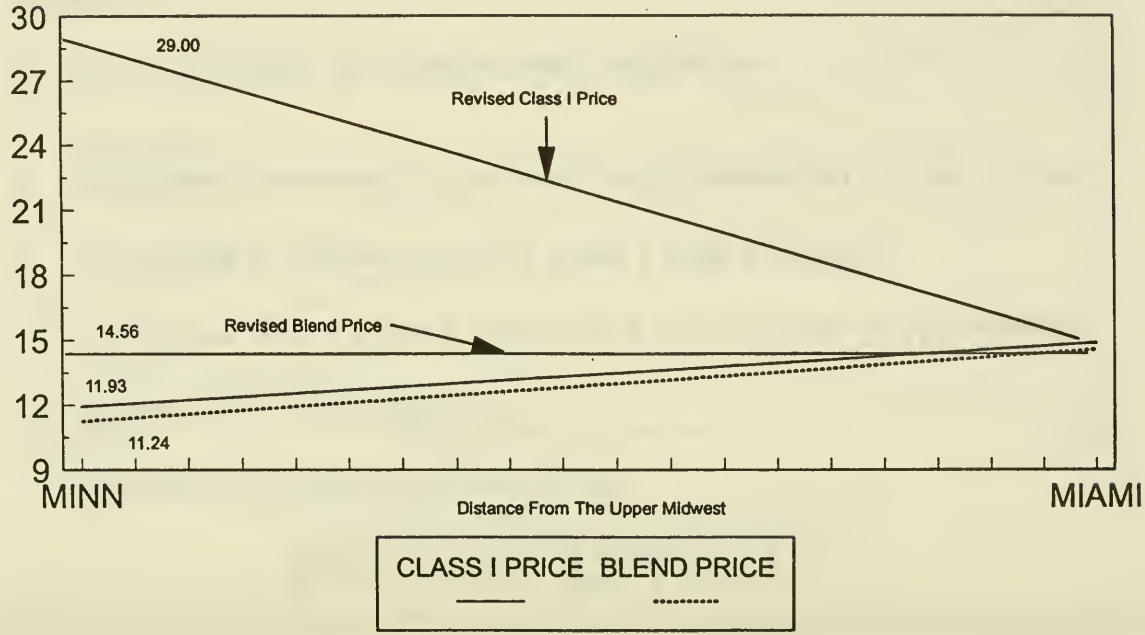
IMPACTS OF STRATEGY 4

1. Minneapolis blend price rises $1.56
2. Miami blend price falls $1.77
3. Consumer cost of Class I milk rises $.25 per gallon in Minneapolis
4. No change in consumer cost of Class I milk in Miami
5. Significant incentive to increase milk production in the Upper Midwest
6. Eventual decline in manufacturing milk prices

NOTE:

A system of transportation credits would be needed to facilitate the movement of milk between markets.

STRATEGY 5: INDIVIDUAL MARKET POOLS SET CLASS I PRICES HIGH ENOUGH TO EQUALIZE BLEND PRICES AT THE MIAMI LEVEL ($14.56)



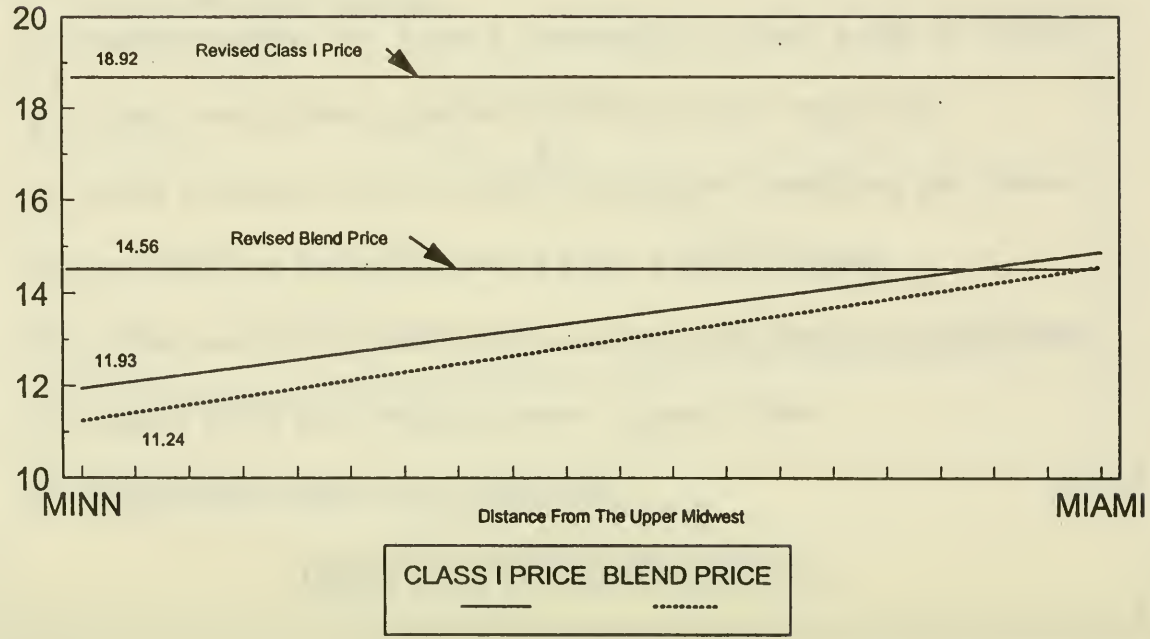
IMPACTS OF STRATEGY 5

1. Minneapolis blend price rises $3.32
2. Miami blend price stays the same: Nobody loses
3. Consumer cost of Class I milk rises $1.47 per gallon in Minneapolis
4. No change in consumer cost of Class I milk in Miami
5. Huge incentive to increase milk production throughout the system
6. Quick and dramatic decline in manufacturing milk prices
7. Great incentive for Class I processors to move south to acquire lower cost Class I milk

NOTE:

Very large transportation credits needed to facilitate the movement of milk between markets.

STRATEGY 6: NATIONAL POOL
BLEND PRICES AT THE MIAMI LEVEL ($14.56)



IMPACTS OF STRATEGY 6

1. Minneapolis blend price rises $3.32
2. Miami blend price stays the same: Nobody loses
3. Consumer cost of Class I milk rises $.60 per gallon in Minneapolis
4. Consumer cost of Class I milk rises $.35 per gallon in Miami
5. Huge incentive to increase milk production throughout the system
6. Quick and dramatic decline in manufacturing milk prices.

NOTE:

A system of transportation credits would be needed to facilitate the movement of milk between markets.

The CHAIRMAN. Thank you, Collin. I am delighted that you could be here, and I think that is going to be extremely important because of the perspective you bring.

I will introduce Dr. Novakovic, Mr. Row, and Dr. Young, but before I do, I would like to just make two quick announcements. We will have the various presenters speak with the people you see around the table reacting to them. What I have done is set aside time afterward, at the end of the day, for the audience to participate.

The reason I have done it this way is that I want you to hear all these different views and think about it as we are going along. Then let us know those areas where you agree but especially also areas where you disagree, and also to fill in if you think there is something that has been left out.

So I wonder if we might start with Denise O'Brien. If each one of you would just say who you are and where you are from, and we will go around the table before we start with the presenters.

Ms. O'Brien.

Ms. O'BRIEN. I'm Denise O'Brien. I am a dairy farmer from southwest Iowa and I am the vice president of the National Family Farm Coalition.

The CHAIRMAN. Mr. Goold.

Mr. GOOLD. Jay Goold with Western United Dairymen in Modesto, California.

Mr. PAUL. Gene Paul, a farmer from Minnesota and with the National Farmers Organization.

Ms. PELLEGRINI. Charlotte Pellegrini. I am a Wisconsin dairy farmer from Mauston, Wisconsin.

Mr. ECKEL. Keith Eckel, president of the Pennsylvania Farm Bureau, a farmer in Northeastern Pennsylvania, also serving on the board of directors and the executive committee of the American Farm Bureau Federation.

Mr. COTTA. Richard Cotta, general manager, San Joaquin Valley Dairymen, Los Banos, California.

Mr. CORBETT. Gary Corbett with Dean Foods National Dairy Company.

The CHAIRMAN. Where is Buckey Jones? Let us start down at that end. Buckey, let us go with you.

Mr. JONES. I am Buckey Jones, a dairy farmer from Mississippi, president of Dairymen, Incorporated.

Mr. WHORTON. Don Whorton, an Alabama dairy farmer working with the National Dairy Campaign. [Applause.]

Mr. MALCOLM. I am John Malcolm from Pawlet, Vermont. I am a dairy farmer there and I represent Southern Vermont on the Agri-Mark Co-op board.

Ms. DOELMAN. I am Mieke Doelman, a dairy farmer from Olympia, Washington.

Ms. HANSON. I am Norma Hanson from Northern Minnesota, and I am chairman of the Minnesota Farmers Union executive board.

The CHAIRMAN. Thank you all very much, and thank you for the time and effort you spent in not only preparing to be here but to be here.

Let us start with the first panel. Our first presenter is Dr. Andrew Novakovic. Dr. Novakovic is the director of the Cornell pro-

gram on dairy markets and policy. He will give us a brief review, if it is possible to do it briefly, of where the dairy industry is today and why.

Doctor, I am delighted you could take the time to be here, and please go ahead, sir.

STATEMENT OF ANDREW M. NOVAKOVIC, PH.D., AGRICULTURAL ECONOMIST, CORNELL UNIVERSITY, ITHACA, NY

Mr. NOVAKOVIC. Thank you, Senator Leahy and other distinguished members.

I am happy to be here. This is an unusual and rare occasion and I am happy to play a small role in helping facilitate this meeting.

As I understand it, my charge today is somewhat to play the role of historian and institutional memory and talk a little bit about how we got to where we are.

I also want to say—I hope that this is common knowledge and I don't need to say it, but I would like to remind all of you and Senator Leahy and Secretary Espy that I and my colleagues in the land-grant university system are at your disposal. I believe that we do have a role to play in helping you work through many of the tough issues and trying to understand the events that are occurring and this sort of thing. I am pleased to be able to play that role to some extent today.

My comments are somewhat oriented towards looking at the current situation and also to share some thoughts about how we got to where we are, both in terms of the policies we have and the current situation. There will be others here today that will talk more about the situation from their perspective and future directions for dairy policy. Hopefully, my comments will lay some foundation for these discussions.

As we look at today's dairy policy, I think from a distance it is often easy to lose track of the many parts and how we got to these parts and how the parts fit together. There are basically three major legs to dairy policy, the Federal Milk Marketing Order System, the price support program, and dairy import quotas, and I will focus my attention primarily on those three fundamental economic programs.

I think we should probably also keep in mind that there are many other policies and programs that have important implications for the dairy industry and to some extent interact with or may even override the importance of the basic economic programs.

Certainly we have fundamental non-economic Federal policies that have a lot to do with how the dairy industry operates on a day-to-day basis. We have economic-oriented programs that are not particularly there just for dairy—the Capper-Volstead Act which has a lot to do with enabling cooperatives, our trade policies, nutrition and food policies, environmental policies—which clearly are of great importance, and I think in many ways many of these programs may be more important in our thinking about where the dairy industry is going than just our dairy policies.

Nevertheless, let me focus on the fundamental dairy programs, as I believe this is where we will focus much of our attention today.

Of the three programs, the Federal Milk Marketing Orders System is the oldest, coming to life in the late-1930s. This system

evolved both at Federal and State levels, although, of course, the Federal program has come to dominate as State programs have tended to default to Federal legislation.

But these programs, the mechanism of Federal milk marketing orders, actually originated from cooperatives. Classified pricing and pooling was actually developed by cooperatives in the late 1800s, and many of the roots and reasons why we developed this mechanism and eventually brought it to Federal legislation stems from conditions that go back way before the 1930s when this program was codified.

Milk marketing orders sought to deal with and correct several different types of concerns and problems that began to emerge as the country grew to a more fully developed market system in the early 1800s, concerns such as equity between producers and processors, equity among producers serving a market area, the reasonableness of returns to producers, reasonable prices for consumers, stability in the marketplace, and a variety of things that I will just simply refer to as efficiency issues, some of them involving transportation, for example.

Federal milk marketing orders and their State counterparts in earlier years addressed a number of these concerns, but progress was slow and incomplete. Although the Federal program is traced to the Agricultural Marketing Agreement Act of 1937, it was not until 1968 that we had over half of the Nation's milk supply priced under Federal orders.

Milk marketing orders helped with some of the equity and efficiency issues, but the tools of milk marketing orders were not and still are not well suited to the issues of stability, and farmers still had reason to feel that their concerns about price levels were unaddressed by Federal orders.

This thinking led ultimately to the Dairy Price Support Program in the 1949 Agricultural Act. This program of having the Federal Government establish a farm price goal and then try to create conditions to achieve that goal through offering to purchase surplus dairy products, sought directly to address questions or concerns related to stability and price level or reasonable returns to producers.

The third leg, dairy import quotas, became a practical necessity to complement the price support program very soon after that program took effect, and we essentially began the quota program with legislation in 1951.

Now as we think about the development of these programs, it is probably tempting to say, well, that is fine, but this is a long time ago. What does that have to do with today? I believe it has quite a bit to do with today. I think we need to ask, or to recognize that many people outside of our industry, or outside of agriculture more broadly are asking, do we still need these programs—all three or two or one or none.

The fundamental concerns that led to these programs in the first place still exist, and we should not assume that new technologies and larger geographic markets and global trade and all the many, many changes that have occurred since these programs were initiated have rendered these programs somehow obsolete. Yes, much has changed, but in many ways much is still the same.

I think all we have to do is look at the conditions that have emerged since 1988 to learn about the underlying instabilities that characterize milk and dairy product markets, and they do so today just as much as they did 50 or 100 years ago.

As a new professor at Cornell University, I was honored, and actually, I will tell you, kind of thrilled, to be invited to participate in a USDA-sponsored symposium on dairy policy in 1982. I recently reviewed some of the discussion around that symposium, and I think anyone that remembers that time and can cast themselves back into that time must be struck by how much has changed in some important dimensions relative to today. We no longer spend $2 billion or more to buy one-tenth or more of the Nation's milk supply.

I think, if nothing else out of this meeting, we should deliver a message to our friends and colleagues in Washington that dairy farmers probably deserve to get a little more credit for the sacrifices they have made to bring dairy markets back into a larger macroeconomic balance. We continue to hear criticisms of dairy programs, I continue to get calls from people who want me to tell them how many billions of dollars we are spending on dairy this year. Those days are gone. Now, all our problems are not solved, but we should get a little more credit for the substantial progress that we have made. [Applause.]

Clearly, everything is not rosy and comfortable. There are still some concerns, longstanding concerns about reasonableness in price levels, stability, equity across producers. These issues are very much at the forefront, and I am sure we are going to be hearing much of the discussion about this today.

Industry has made some of its own effort to try to deal with some of these issues. The introduction of futures markets to try to help on the stability side is an example, and many other things have been done by self initiative. But just as was true 70 years ago, it is impossible for the dairy industry by itself to solve some of these most basic and fundamental concerns.

I would also say that I think the initial optimism surrounding the beginning of a new administration has now settled into a realization that our work is certainly still cut out for us, and there are no easy answers. There is no answer that solves all the questions.

Lots of times I get asked, what would you do? I can't answer this question, I can't give you the magic answer, and I am sure if there were one, somebody else would have thought about it before me.

But let me offer at least this one last comment. One of the first rules of medicine is, above all, don't make the patient worse. Now I certainly would not suggest that I know more about how to do the business of establishing policy than our leaders, but I would ask that this very simple bit of prescription be kept in mind. There will be many pressures to reform dairy policy and there will be many pressures from outside to impose new regulations, requirements related to environment, nutrition, and trade-related reasons and so on. If nothing else, let us at least do our best to not make the patient worse.

Thank you.

[The prepared statement of Mr. Novakovic follows:]

CPDMP Briefing Paper No. 17 21 June 1993

THE CURRENT SITUATION IN DAIRY MARKETS AND HOW WE GOT HERE: A DETAILED OUTLINE[1]

Andrew M. Novakovic, Director
Program on Dairy Markets and Policy
Cornell University

Federal dairy programs have long roots going back to conditions that became evident as early as the 19th century. While much has changed in many ways, much of the fundamental underlying rationale and justification for government regulation is as valid today as it was 60 years ago. In a very literal sense, few if any of the basic problems and prescriptions discussed today are new.

The very severe problems of excess supplies and large government program costs that emerged in the early 1980s have in large part been solved. The solutions have not been without a cost to dairy farmers and there continues to be considerable tension and concern within the farm community about the instability of the current situation and the prospect of external factors causing even more difficult adjustments. Recent and future adjustments have not and will not be felt equally. There are producers who did not survive or will not survive; there are others who prosper. The same can be said of dairy product processors.

Perhaps the words that best characterize the current economic situation is instability and uncertainty. People who have been around the dairy industry a long time frequently talk about the characteristics of the product and the industry that make it inherently unstable in terms of prices. With support prices set at almost meaningless levels since 1988, these underlying characteristics are becoming evident again. Industry members are taking steps of their own to manage this instability, but it has not been easy. The challenge has been made greater by unusual weather conditions that have reduced harvests of feed grains and forages to below normal levels. In addition, uncertainty about the impacts of trade negotiations, environmental regulations, technological changes, consumer demand, and the like have heightened the underlying instabilities.

I. Foundations of Federal Dairy Policy

A. Economic conditions leading to major federal (and state) dairy policies trace to as far back as the late 1800s and early 1900s.

1. collective bargaining efforts by dairy farmers beginning in early 1800s

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[1] A presentation based on the outline was made at the National Dairy Summit held in York, Pennsylvania on 21 June 1993. This conference was conducted under the auspices of the Senate Committee on Agriculture, Nutrition, and Forestry under Chairman Patrick Leahy and the U.S. Department of Agriculture under Secretary Michael Espy.

2. early efforts were small scale and largely unsuccessful
3. successful efforts by dairy cooperatives 1907 to 1917 but gains proved to be difficult to maintain
   a. defection of individuals
   b. non-excludable or marketwide benefits
   c. agricultural depression of early 1920s and controversial attempt of cooperatives to maintain markets by purchasing failing plants
4. Capper-Volstead Act passed in 1922 to bolster farmers' ability to help themselves through cooperative action
5. marketing cooperatives remain unable to solve producers' frustration over inability to obtain and keep prices that generate "adequate" returns
6. Great Depression is too big a problem for cooperatives to solve

B. Key characteristics or conditions of concern are:

1. Relative bargaining power of farmers, processors, and retailers or consumers
   a. persistent feeling among producers that farm prices are too low relative to costs, resulting in large part from the fact that milk buyers have more bargaining power than milk sellers
   b. farm milk and most dairy products are highly homogeneous, hence it is difficult if not impossible to differentiate products and bargain individually on that basis
   c. consumer demand is inelastic in the sense that it is not heavily determined by price levels, but because milk is viewed as an important staple food, consumers are very sensitive to changes in retail price
   d. relative bargaining power of processors vs. farmers and processors vs. retailers or consumers makes it easier for processors to put price pressure on suppliers than for processors to pass along cost increases to their customers
2. inability to store milk combined with seasonality in milk production, especially relative to fluid milk demand, leads to:
   a. processing and transportation costs associated with balancing
   b. costs associated with maintaining year-around grade A status for producers who sell to the fluid market only part of the year
   c. considerable variation in returns (price) for the "fringe" producer
   d. considerable variation across producers depending which market they serve
3. there exist marketing inefficiencies (too many plants, convoluted milk assembly patterns, etc.) because of certain inherent characteristics of milk and incentives for processors to engage in practices that tend toward "destructive competition"
   a. bargaining power of milk buyers and fragmentation of milk sellers make it possible for processors to enforce "low" prices by procuring milk from distant ("country") sources when more nearby sources try to negotiate for higher prices
   b. cut-throat competition among processors for store accounts is ultimately destructive in the sense that it undermines the health of the processor sector as well as the farm sector
   c. desire of cooperatives to "control" milk supply often lead to the building or acquisition of manufacturing plants that are otherwise not necessary

4. milk is widely perceived as a vital, staple food that is especially necessary for the health and welfare of children; as such it deserves special attention to ensure a safe, adequate supply at reasonable prices

C. The evolution of federal dairy programs--1933 to 1951

1. controlling the supply/demand balance
   a. there were modest federal efforts to purchase "surplus" dairy products to support prices and for food assistance purposes in the early 1920s
   b. the Agricultural Adjustment Act of 1933 originally featured three basic provisions
      i) production controls
         - producer support was needed to implement a specific plan
         - producers could not agree on whether a plan was needed or on what type of plan was best
         - disagreements existed along regional lines and between farms of different sizes, but disagreements also existed within regions and among smaller and larger farm size groups
         - a plan was never implemented, eventually Supreme Court ruled that the AAA provisions for a processor tax intended to finance such plans were unconstitutional
      ii) marketing agreements
      iii) licensing as a means of eliminating unfair marketing practices and charges
2. classified pricing and pooling
   a. basic design and justification
      i) processing plants pay for milk according to how the milk is used
      ii) plant payments are pooled so that a group of farmers delivering to a group of plants receive a weighted average or blended or pooled price
      iii) classified pricing hinges on the notion that fluid milk processors have a greater ability to pay, and serving the fluid milk market is more costly for suppliers
      iv) pooling hinges on beliefs that milk is a homogeneous commodity, which plant a specific producer serves is to some extent a matter of serendipity, and without equitable sharing farmers would compete against one another to an extent that would be detrimental to all farmers
   b. first plans were implemented and operated by cooperatives
      i) first classified pricing and pooling plan was (probably) the cooperative plan implemented in the Boston market from 1880 to 1901
      ii) by 1932, at least 68 metropolitan markets across the U.S. operated under a classified pricing plan, all of which were the result of cooperative action
   c. cooperatives had a difficult time achieving all the objectives of their farmers
      i) maintaining control over market supplies is difficult (problem of defections)
      ii) classified pricing and pooling can address concerns about producer-to-producer equity and some efficiency issues but these mechanisms are not powerful enough to address concerns about the "adequacy" of average returns (prices)

iii) in 1901 in the Boston market, the classified pricing plan was replaced with a so-called base ratings plan, which operated something like the more recent class I base plan; the purpose of such plans is partly to preserve more of the higher valued class I price for pre-existing farms, as opposed to new entrants, and partly to discourage production not needed for class I use; the base ratings plan was also used in other markets

iv) in 1918, the Boston market returned to a straight classified pricing and pooling plan, which it kept until 1932

v) the agricultural depression of the early 1920s left all of agriculture in a weakened position for much of that decade; the Great Depression ended any hope that farmers could achieve satisfactory prices solely through cooperative action

d. First federal (and state) programs tended to codify and enforce pricing and marketing mechanisms originally developed by cooperatives.

i) marketing agreement provisions of the AAA of 1933 oriented toward federal monitoring of privately negotiated agreements, producers needed greater ability to negotiate favorable agreements

ii) Agricultural Marketing Agreement Act of 1937 laid foundation for the current Federal Milk Marketing Order system

D. Federal Milk Marketing Orders

1. voluntary; producers request USDA to investigate conditions in a marketing area and offer suggestions for specific classified pricing and pooling provisions to regulate the market; USDA has responsibility to recommend an Order that balances the needs and interests of farmers, processors, and consumers; farmers can accept or reject the USDA decision (in its totality)
2. the system has grown slowly but today encompasses approximately 79% of all milk eligible for coverage by a federal order (i.e., grade A milk); for that matter virtually all of the rest of the eligible milk supply is priced under state authorized programs; it wasn't until the 1968 (30 years after the program was first authorized) that over half the milk supply was priced under a federal order; today provisions are written in such a way that basically any grade A farmer who wants to get in can, although it may, as a practical matter, necessitate joining a cooperative to do so
3. federal enforcement of Orders resulted in a more sure and reliable application of marketing order provisions across an entire marketing area than cooperative could achieve on their own; nevertheless, the basic classified pricing and pooling mechanism was still no better suited to address the perceived inadequacy of the underlying price level

E. The Dairy Price Support Program

1. federal government had some modest experience with purchasing surplus dairy products prior to the 1940s
2. AAA of 1933 established a goal of achieving parity incomes and prices but did not successfully specify a mechanism for doing so.

3. as part of the war time effort to ensure food supplies, Congress authorized a price support program which guaranteed minimum prices for manufactured dairy products; this program was run on a year-to-year basis
4. after 1945, the return of many young men to the farm, a sluggish post-war domestic economy, and a reduction in food exports (butter was especially important) resulted in a decision to make the dairy price support program a permanent fixture of U.S. agricultural policy in the Agricultural Act of 1949.
5. basic features
   a. national average farm prices for milk are supported by the U.S. government willingness to purchase unlimited quantities of certain qualified manufactured products at wholesale prices that are designed to be high enough to ensure that a manufacturer can return a price to the farmer that is comparable to the stated farm support price goal
   b. farm price goals are stated in terms of a support price for manufacturing grade (grade B) milk, recognizing that grade A price will naturally average higher
   c. from 1949 to 1981, the support price was announced at least annually and was specified with respect to a percentage of the so-called parity price for milk; the parity price was calculated from a formula that reflected inflation in agricultural input prices vs. agricultural output prices
   d. since 1981, the support price has been set by a combination of political negotiation and adjustments tied to milk equivalent levels of sales to the USDA of surplus products

F. Dairy Import Quotas

1. the fact that U.S. prices were set high enough to attract product from foreign countries necessitated some protection of the dairy price support program
2. the Trade Agreements Extension Act of 1951 amended the AAA to permit the President to implements quotas when it was probable that unrestricted imports would undermine the domestic price and income goals of agricultural policies

II. The Dairy Crisis of the 1980s

A. the Nixon/Butz years

1. the sharp increase in feed prices in 1973, precipitated in part by massive sales of grain to the Soviet Union, resulted in about a 50% increase in feed prices for dairy farmers and a sharp reduction in production per cow and national milk production
2. petitions for increases in the support price were resisted in part because of President Nixon's emphasis on controlling inflation and Secretary Butz's emphasis on getting government out of agriculture
3. although milk prices rose due to competitive conditions, the period 1973 to 1975 was difficult for dairy farmers

B. the Carter years

1. President Carter exercised his authority to set a higher support price for milk in 1976; unfortunately the market had achieved its own balance by this time and the increased price was no longer warranted by market supply and demand conditions
2. Congress expanded on Carter's decision by requiring high levels of price support, with semiannual adjustments based on input price inflation; the initial two year program was renewed in 1979 to an additional two years

C. the Reagan/Bush years

1. by 1980, it was readily apparent that the persistent and sharp increases in milk prices fostered by the policies of the late 1970s had overstimulated production and probably slowed consumption growth as well
2. Congress rescinded the last scheduled semiannual support price increase under the 1979 legislation, slated for April 1981
3. during the 1980 farm bill debate, Congress and industry grappled with the need to do something but found it difficult to accept holding the support price constant, much less decrease it
4. by 1981, net removals of dairy products were on their way toward a new record level and the 1980 farm bill was amended to replace its modest increases with a flat support price and new assessments to help offset program costs and perhaps give some incentives to reduce production
5. by 1983, net removals were on their way toward establishing an all-time record for magnitude and cost, and Congress passed a precedent setting four-point program via the Dairy Stabilization Act of 1983; the DPSA included provisions for:
   a. cuts in the support price tied to levels of net removals
   b. per cwt assessments on farm milk to generate revenue
   c. a new mandatory assessment to support a national program of dairy promotion and consumption-expanding research
   d. the Milk Diversion Program to reduce production
6. by July 1985, the support price had been cut by $1.50 from its 1981 to 1983 high of $13.10 and the MDP expired
7. the MDP reduced production and sales of surplus products to the CCC while the program was in effect, but production quickly rebounded as soon as payments to farmers who cut production were terminated
8. with net removals once again climbing toward near record levels in 1985, the 1985 farm bill again required Congress and the industry to grapple with how to solve the ongoing surplus problem, mounting budget pressures make this much more than a dairy issue
9. the 1985 Food Security Act followed and extended the strategy of the DPSA; it provided for:
   a. future cuts in the support price directly linked to projected net removals
   b. further assessment to provide budget relief
   c. a new milk production termination program, later called the Dairy Termination Program by USDA and the buyout program by most everyone

else; under this program farmers were paid to go out of the milking business altogether for a period of five years

d. a Dairy Export Incentive Program was created, patterned to some extent after the Export Enhancement Program that had been used for other agricultural products
e. federal order class I price differentials were increased for 35 of 44 federal order markets
    i) this was done in part to appease parts of the country which were not supportive of the buyout program, based on their experience with the MDP
    ii) class I differentials had not been reviewed and adjusted in a general way since 1979; hence there was some general feeling that an adjustment was overdue
    iii) this was the first time Congress had so directly intervened in the provisions of federal orders
    iv) this action set the stage for a major disruption in the federal program and ongoing criticisms of it that may eventually result in its demise

10. reduced surpluses and government expenditures allowed Congress to pass a 1990 Food, Agriculture, Conservation, and Trade Act that basically maintains the *status quo ante* for dairy policy

III. Current Situation

A. Since 1988, milk and dairy product price volatility has been unprecedented for dairy and equal to or greater than the volatility observed in other agricultural product markets
B. Industry has been trying to develop strategies and mechanisms to cope with this increased volatility, e.g. stocks management, futures markets, cash flow management, etc., however this remains a substantial problem and challenge
C. Dairy farm structure and performance is becoming increasingly polarized; there is some correlation between performance and farm size or geographic location, but the relationships are more complicated than that
D. Dairy processors have had as much difficulty coping with the new instability as dairy farmers
E. Although retail dairy product prices still represent a bargain relative to foods in general or the general rate of inflation in consumer products, farm-to-retail price spreads have widened in conjunction with the greater instability; available evidence indicates that most, if not all, of the widening has occurred at the retail level
F. External uncertainties related to international trade policies, environmental issues, consumer demand, biotechnology, and the like exacerbate the sense that we may be on the brink of becoming totally out of control
G. The next farm bill will begin to take form in about one year!

The CHAIRMAN. Thank you very much. [Applause.]

Our next presenter is Ewing Row, who is the Managing Editor of Hoard's Dairyman Magazine. I don't have to tell you how much of an institution Hoard's is in the dairy industry, and we receive it also, I hasten to add, Mr. Row, at the Senate Agriculture Committee.

I am pleased to have you here, and please go ahead, sir.

STATEMENT OF EWING H. ROW, MANAGING EDITOR, W.D. HOARD & SONS CO., FORT ATKINSON, WI

Mr. ROW. Only 6 of every 100 dairy farmers in business 50 years ago are selling milk today. However, from their farms they are marketing 70 percent more milk than did their fathers, nearly 150 billion pounds in 1992. That milk came from about only 40 percent of the cows that were on farms in 1950. Today's cow is producing 3½ times as much milk as did her ancestors 40 years ago. No other industry can boast of such efficiencies.

However, even though the dairy market is a growth market and efficiencies have grown tremendously, not all dairy farmers have enjoyed the benefits of that efficiency. As a matter of fact, much of the savings have been passed on to consumers or to those who handle milk from the time it leaves the farm until it is opened by consumers or food service personnel. The dairy farmers' share of the retail food dollar has eroded to only 35 cents, down from about 50 cents in 1950.

All of agriculture has improved efficiency remarkably, so much so that less than 10 percent of take-home pay is spent on food and only about 1.5 percent is spent on milk and other dairy products. Plus, it takes less than 8 minutes to earn the price of a half gallon of milk, and that is less than half the time it took in 1950. At the same time, the average hourly wage has risen nearly eightfold.

The real questions I am here to answer today are, number one, are the Nation's dairy farmers making a return on their land, buildings, equipment, and cattle investments equal to what their city cousins earn in other industries or even at the local bank?

Number two, are the Nation's dairy farmers making a return on their labor and management which matches what equally effective managers make in other industries?

Number three, are dairy farmer returns on investment, labor, and management such that it is possible for young men to enter the industry reasonably leveraged with a high probability of paying off their debt load?

The answers to these three questions are no, no, and no. [Applause.]

In 1992, income from the sale of milk off the farm was $19.7 billion, up 7.6 percent from 1991 but down from 1990's $20.1 billion. For the first 2 months of this year, dairy farmer income from the sale of milk off the farm has been down $136 million during January and February, and I have corrected that for leap year.

Why? The answer is price. The Minnesota-Wisconsin price, the base for virtually all U.S. farm milk prices, was less than the previous year during January and February but has since recovered to levels higher than the previous 2 years.

Cheese prices have a remarkable influence on the M-W price. They have been strong and rose spectacularly earlier in the year. However, more recently they have fallen just as spectacularly on the National Cheese Exchange. They have fallen more rapidly, actually, than they rose earlier. Both 40-pound blocks and 500- and 600-pound barrels are traded every Friday on the National Cheese Exchange in Green Bay, Wisconsin.

None of the information just presented really answers any of the three questions. The USDA conducts a cost-of-production survey for milk and other farm commodities. What USDA calls net farm income averaged $25,735 in 1991 on the population of farms surveyed. Note that it is down considerably from the previous 2 years.

But in looking at USDA's figures, net farm income really is return to labor, management, and equity. There is no operator labor taken as a cost, nor is there a return-on-equity figure deducted.

Herd size has a tremendous influence on USDA's net farm income. The larger the herd, the greater return to labor, management, and equity. The differences are great, so to even the score I have converted net farm income, USDA's figure, to a percent return on equity. The bars in the graph are leveled out somewhat, but the message of bigger herds returning higher incomes than smaller ones still is quite evident.

USDA conducts its study by regions. You will note net farm income varies considerably by region. However, it is important to note that dairy farm assets in the farm survey varies tremendously by region also. Therefore, you would expect those regions with higher assets to have a higher return to labor, management, and equity, and they do.

In order to show what dairy farmers in various regions earn, according to USDA, for their labor and management, I have assumed a 5-percent return on assets and subtracted that figure from what USDA calls their net farm income. The graph shows what dairy farmers get for their long hours of work and management abilities. It sure isn't much.

USDA is not the only source of dairy farm financial information. As I was preparing for this presentation, the Northeast Dairy Farm Summary, prepared by the Farm Credit Banks of Springfield, Massachusetts, arrived in the mail. The financial records of 789 farms are included and they are from the 6 New England States, New York, New Jersey, and Pennsylvania. Information for the following graphs came from that summary.

Net earnings per cow are volatile. This information is for the Northeast, and net return for assets follow the same pattern and have a dismal 5-year average of 3.4 percent. Return on equity is even worse. And here is a 13-year history of net earnings per cow for those dairy farmers on Agrifax accounting system in the Northeast.

A couple of points from the Northeast summary. Those dairy farmers with higher milk production per cow are not necessarily the most profitable. This graph is just a copy directly taken from the publication. It shows production per cow versus profit per cow. It appears as if a shotgun were fired at a piece of graph paper.

A better idea of how profitable a dairy farm might be is pounds sold per worker. Now this chart here shows you that as you get to

800,000 pounds of milk sold per worker that profit certainly is there. The number of cows goes up, milk per cow goes up, investment per worker is the highest in that highest group also, but look what net earnings per cow are, $229 for those efficient farmers.

What this tells us is that it takes more than high production per cow to be profitable on a dairy farm. Milk sold per worker and investment per cow are keys to dairy profitability.

All of us are aware that there is a shift going on in milk production in the United States, and this cartoon reads, first the bad news. If we don't do something quick, California will claim the title as America's Dairyland. And someone sitting at the table says, what is the good news? They are the ones that will have to wear those stupid cheese-head hats in public. [Laughter.]

Well, there is a shift on where milk is produced and it has been going on as is presently happening and it will continue to do so. Why the shift? Well, I think it is profit. If you look at why there are higher returns in those areas, you will find it is a function of herd size, production per cow, and milk marketed per worker, some of the same things that we were just talking about.

Plus, dairymen in those areas are getting better, compared to their fellow farmers in other areas of the country. Milk per cow increases over time are greater than in some of the traditional dairy areas, and there is a higher proportion of dairy farms that are run as businesses. Dairy owners and managers are not there for a way of life.

Commercial use is a bright spot for dairy farmers. In the past 22 years, commercial use in any 1 year has been less than the previous year only 3 times. In 1992, it rose 1.2 percent. Here is the same information, just presented a little bit differently, and it shows it certainly has been a growth market.

Admittedly, U.S. population has helped commercial use. However, per capita consumption is holding its own. In 1992, it was down 1 pound to 564 pounds.

Dairy farmers no longer are at the Federal feed trough. CCC outlays by commodity show that dairy support price costs are not major compared to feed and food grains. Dairy CCC costs peaked at nearly $2.5 billion annually. Expected 1993 CCC outlays are only $125 million, one-twentieth the cost of 7 years ago. That is a tremendous accomplishment. It is important to note that dairy farmers receive no direct Government payments through the Dairy Price Support Program.

Why the change in Government costs? Not long ago, the support price led farm milk prices, but no more. Since 1981, the support price has been reduced by 25 percent, and the result is volatile farm prices above the support price.

Well, where are we right now? The May M-W price was up 37 cents to $12.52, 46 cents higher than last year and $2.29 higher than disastrous prices in 1991. Many dairy farmers were smiling. However, last Tuesday USDA reported that May milk production was up again 1.1 percent.

Also last Friday, prices on the National Cheese Exchange took a disastrous fall. Blocks nosedived 7½ cents a pound to $1.26. Barrels dropped 6¾ cents to $1.22. In 3 weeks of trading, blocks have tumbled 13¼ cents a pound. Future dairy farmer pay prices will

be about $1.30 a hundredweight less from what they might have been had cheese prices remained at earlier levels.

Such volatile commodity prices cause up and down farm milk prices and add to the uncertainty many dairy farmers are feeling. As the title indicates, the U.S. dairy industry is in a time of transition, volatility, and tremendous uncertainty.

Thank you very much. [Applause.]

[The prepared statement of Mr. Row follows:]

PREPARED STATEMENT OF EWING H. ROW, MANAGING EDITOR, W. D. HOARD & SONS CO., FORT ATKINSON, WI

THE DAIRY INDUSTRY: A TIME OF TRANSITION, VOLATILITY AND UNCERTAINTY

Only 6 of every 100 dairy farmers in business 50 years ago are selling milk today (1).[1] However, from their farms, they are marketing 74 percent more milk than did their fathers (2), nearly 150 billion pounds in 1992. That milk came from about only 40 percent of the cows that were on farms in 1950 (3). Today's cow is producing 3½ times as much milk as did her ancestors 40 years ago (4). No other industry can boast such efficiencies.

However, even though the dairy market is a growth market (5) and efficiencies have grown tremendously, not all dairy farmers have enjoyed the benefits of that efficiency. As a matter of fact, much of the savings have been passed onto consumers or to those who handle the milk from the time it leaves the farm until it is opened by consumers or food service personnel. The dairy farmer's share of the retail food dollar has eroded to only 35 cents in 1992, down from about 50 cents in 1950 (6).

All of agriculture has improved efficiency remarkably, so much so that less than 10 percent of take-home income is spent on food and only about 1.5 percent on dairy products (7a). Plus, it takes less than eight minutes to earn enough to purchase a half gallon of milk, less than half of the time it took in 1950 (7b). At the same time the average hourly wage has risen nearly eightfold.

The real questions we're here to answer today are:

1. Are the Nation's dairy farmers making a return on their land, buildings, equipment and cattle investments equal to what their city cousins earn in other industries or even at the local bank?
2. Are the Nation's dairy farmers making a return on their labor and management which matches what equally effective managers make in other industries?
3. Are dairy farmer returns on investment, labor and management such that it is possible for young men to enter the industry reasonably leveraged with a high probability of paying off their debt load?

The answer to all three of these questions is "No."

In 1992, income from the sale of milk off the farm was $19.7 billion (8a), up 7.6 percent from 1991, but down from 1990's $20.1 billion. For the first 2 months of this year (8b), dairy farmer income was down $136 million from the first 2 months in 1992. (The figure has been corrected for leap year.)

Why? The answer is price (9). The Minnesota-Wisconsin price, the base for virtually all U.S. farm milk prices, was less than the previous year during January and February but has since recovered to levels higher than the previous 2 years.

Cheese prices have a remarkable influence on the M-W price. They have been strong and rose spectacularly earlier in the year (10). However, more recently, National Cheese Exchange prices have fallen about as rapidly as they rose earlier. Both 40-pound blocks and 500- or 600-pound barrels are traded every Friday on the National Cheese Exchange in Green Bay, Wis. (11).

None of the information just presented really answers any of the three questions.

USDA conducts a cost-of-production survey for milk and other major farm commodities (12). What USDA calls "net farm income" averaged $25,735 in 1991 on the population of farms surveyed. Note that it was down from the previous 2 years.

But, in looking at USDA's figures, "net farm income" really is return to labor, management and equity. There is no operator labor taken as a cost; nor is there a return-on-equity figure deducted.

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[1] Numbers in parentheses refer to graph and chart numbers which accompanied Mr. Row's presentation, unavailable for reproduction here.

Herd size (13) has a tremendous impact on USDA's "net farm income." The larger the herd, the greater the return to labor, management and equity.

The differences due to herd size are great. To even the score, I've converted "net farm income" to a percent return on equity (14). The bars in the graph are leveled out, but the message of bigger herds returning higher incomes than smaller ones still is evident.

USDA conducts its study by regions (15a). "Net farm income" varies considerably by region. However, it is important to note that dairy farm assets vary tremendously by region also (15b). Therefore, you would expect those regions with higher assets per farm to have higher return to labor, management and equity, and they do.

In order to show what dairy farmers in the various regions earn for their labor and management, I've assumed a 5-percent return on assets and subtracted that figure from the return to labor management and equity (15c). The graph shows what dairy farmers get for their long hours of work and management abilities—not much.

USDA is not the only source of dairy farm financial information. As I was preparing for this presentation, the Northeast Dairy Farm Summary, prepared by the Farm Credit Banks of Springfield, Mass., arrived. The financial records of 789 dairy farms from the 6 New England States, New York, New Jersey and Pennsylvania are included in the summary.

Information for the following graphs is taken from the 1992 Northeast Dairy Farm Summary.[2]

Net earnings per cow are volatile (16). Net return on assets follow the same pattern and have a dismal 5-year average of 3.4 percent (17). Return on equity is even worse. Here is a 13-year history of net earnings per cow for those dairy farmers on Agrifax in the Northeast (18).

A couple of last points from the Northeast summary: Those dairy farmers with the highest milk production per cow are not necessarily the most profitable (19). This graph, taken directly from the summary, shows production per cow versus profit per cow. It appears as if a shotgun were aimed at a piece of graph paper.

A better idea of how profitable a dairy farm might be is pounds of milk sold per worker, including the operator and family labor (20). The table shows pounds of milk sold per worker, number of cows per farm, milk per cow, investment per worker and net earnings per cow.

What this information is telling us it that it takes more than high production per cow to be profitable on a dairy farm. Milk sold per worker and investment per cow are keys to dairy profitability.

As all in this room are aware, a shift in where milk is produced has been going on, is presently happening and will continue (21). Why the shift? It is profit. If you look at why there are higher returns in those areas, you find it is a function of herd size, production per cow (23) and milk marketed per worker, some of the same measures we were just talking about. Plus, dairymen in those areas are getting better, compared to their fellow dairy farmers in other areas of the country. Milk-per-cow increases over time are greater (24), and a higher proportion of dairy farms are run as businesses. Dairy owners and managers are not there for "a way of life."

Commercial use is a bright spot for dairy farmers (25). In the last 22 years, commercial use in any 1 year has been less than the previous year only three times. In 1992, it rose 1.9 percent. Here is the same information presented differently (26). U.S. population growth has helped commercial use. However, per capita consumption (27) is holding its own. In 1992, it was down 1 pound to 564 pounds.

Dairy farmers are no longer at the Federal feed trough (28). CCC net outlays by commodity show that dairy support price costs are not major, compared to feed and food grains. Dairy CCC costs peaked at nearly $2.5 billion. Expected 1993 CCC outlays are only $125 million (29), 1/20th the cost of 7 years ago. It is important to note that dairy farmers receive no direct Government payments through the Dairy Price Support Program.

Why the change in Government costs? Not long ago, the support price led farm milk prices. No more. Since 1981, the support price has been reduced by 25 percent. The result is volatile farm prices above the support price.

Where are we right now? The May M-W price (30) was up 37 cents to $12.52, 46 cents higher than last year and $2.29 higher than May 1991. Many dairy farmers were smiling.

However, last Tuesday USDA reported that May milk production was up again 1.1 percent (31).

Also, last Friday prices on the National Cheese Exchange took a disastrous fall. Blocks nosedived 7½ cents a pound to $1.26 and barrels dropped 6¾ cents to $1.22.

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[2] Graphs unavailable for reproduction.

In 3 weeks of trading, blocks have tumbled 13¼ cents a pound. Future dairy farmer pay prices will be about $1.30 a hundredweight less from what they might have been had cheese prices remained at earlier levels.

Such volatile commodity prices cause up-and-down farm milk prices and add to the uncertainty many dairy farmers feel.

As the title indicates, the U.S. dairy industry is in a time of transition, volatility and tremendous uncertainty.

The CHAIRMAN. Thank you. Thank you very much, Ewing. I do appreciate that and I think it has probably given as good a thumbnail sketch of where we are that there is.

As I said earlier, you may be a member of the Cabinet of the most powerful nation on earth but you can still have car trouble like everybody else.

But I also stated at the beginning that this meeting is historic. Certainly in the 19 years that I have been in the Senate, I cannot think of any similar summit where the Secretary of Agriculture has joined with all the people from across the country involved in that industry as well as those of us who have to make policy in the Congress.

I remember when then President-elect Clinton called and told me that he was going to be nominating Congressman Mike Espy to be Secretary of Agriculture. I told him how pleased I was at that news because I thought he was somebody who understood what individual family farmers were like.

And I recall that at one of the first meetings that the then Secretary-designate and I had we talked about the possibility of this dairy summit. I thought that I was going to have to spend a lot of time selling him on the idea. He immediately said yes, and that we would work very closely in putting this together.

So it gives me a great deal of pleasure to introduce not only the Secretary of Agriculture but a man who is a very close and very dear personal friend, Mike Espy. Thank you for being here, Mike. [Applause.]

STATEMENT OF HON. MIKE ESPY, SECRETARY OF AGRICULTURE, WASHINGTON, DC

Secretary ESPY. Thank you.

We have quite a turnout here this morning. To Senator Leahy and Senator Wofford, Senator Feingold, to my good friends in the Congress, Dick Goodling and Collin Peterson and to Commissioner Wolff, to all of you here on this panel and to everyone here assembled to listen and learn and to discuss current conditions in the dairy industry, I am happy to be here.

And that is more than loose talk. If you have been stranded out on the highway for 2 hours with busted fan belts, you know how happy I am to be here. [Laughter.]

The first thing I should do, seated here with these very powerful men and women on these appropriations committees, is to ask for authorization to get some new vehicles for USDA. [Laughter.]

The CHAIRMAN. I knew that was coming next.

Secretary ESPY. And for those of you who think that Cabinet Secretaries drive around in limousines and private jets, I want to disabuse you of that notion right now. [Laughter.]

I don't want to interrupt the flow, Senator, of this meeting. I am just here to say a couple of things and then to do a lot of listening.

First of all, I would like to thank you for asking me here today to join you and all of the dairy processors and producers and consumers from across the Nation. I have been Secretary of Agriculture for about 5 months now and I have been doing a lot of listening.

As you know, we are dedicated to being farmer friendly, and part of that farmer friendliness is doing everything that we can do to try to improve farm income, and that is our number one priority. [Applause.]

We have already done some things in this category. We increased the farmer's loan reserve to the highest allowable maximum. We have suspended all farm foreclosures to give the farmer the benefit of the doubt. The USDA is the supervisor of taxpayer dollars on agriculture programs. We can't throw money down a dry hole. Now you know that, that if we can't keep the farmer on the land, then the taxpayer understands that we can't do that. But we want to do everything that we can do to support production agriculture, everything that we can do. We want to give the farmer the benefit of the doubt.

So we sent letters out a few months ago out of our Farmers Home Division to all producers across the Nation that had subscribed to these Farmers Home programs, and we suggested that they could come for a fourth review at the Washington level because we want to do, again, everything we can do to keep the farmer on the land. We had thousands and thousands of farmers to submit to that fourth review because we want to give the farmer the benefit of the doubt.

And we have done many, many other things as well that I am sure we will get into during the day.

With regard to the dairy producer, last week the USDA confirmed in a report what dairymen already know, that your investments are higher than for most other producers, your feed demands are very precise, your sanitary standards are the highest, your hours are probably the longest, and you are most in need of income from farming, and yet you depend less than other farmers on all farm income because the way it is going, you just don't have time for all farm work.

So we share your view that now is the time for USDA to take a long-term view of this industry and to look at ways to serve it best. So we are here for some serious thought and some serious reflection.

Lastly, Senator, let me say that there are several actions pending in dairy policy, including the very important vote this summer on the construction of the National Dairy Board. As I have said before and as I wish to emphasize, I strongly urge everyone to vote on this issue. Every dairy farmer should voice his or her opinion by voting in this referendum. It is your industry and your future, so you really should go out and vote. Even if you are a member of a cooperative that decides to block vote, you still have the right and I think the obligation to vote as an individual, and I encourage you to do so. [Applause.]

In fact, I was sued yesterday by some friends——[Laughter.]

The CHAIRMAN. Still friends?

Secretary ESPY. Simply to say that with friends like these, I don't need enemies. But to receive a ballot, you can contact your local ASCS office or call our toll-free number, 1–800–858–7501.

So once more, my role here today is to listen, to increase my awareness so I can better handle all of these dairy policy decisions that come to the desk of the Secretary of Agriculture.

Thanks a lot. [Applause.]

The CHAIRMAN. Mr. Secretary, I want to thank you again for being here. You can see by the reception how eager people were to have you here and to have a chance to hear.

I should also mention the Secretary, I know it was a slip of the tongue when he referred to Bill Goodling as Dick Goodling. That is because Dick Goodling, Bill Goodling's brother, works for the Secretary.

Secretary ESPY. Oh, right.

The CHAIRMAN. But I think the last point the Secretary made on the vote, I hope you will listen very carefully to that. Mike, if you don't mind, I am just going to repeat the 800 number which is 800–858–7501.

Again, I can't tell you how important it is for the Secretary to be here, and frankly, we couldn't have had this meeting without you here, and I appreciate that a great deal.

The CHAIRMAN. Now our last presenter on this panel, before we open it to the others, is another good friend, Dr. Robert Young, who is the co-director of the Food and Agriculture Policy Research Institute at the University of Missouri. Dr. Young was one of the most indispensable members of the Senate Agriculture Committee staff after I first became chairman. He was essential during the writing of the 1990 farm bill, and I do recall Chairman de la Garza of the House always saying, where is the guy with the numbers? It was Dr. Young, my very, very good friend Bob Young, who always had those numbers.

Bob, I am delighted you could take the time to be here today.

STATEMENT OF ROBERT YOUNG, PH.D., DIRECTOR, FOOD AND AGRICULTURE POLICY RESEARCH INSTITUTE, COLUMBIA, MO

Mr. YOUNG. Thank you very much, Mr. Chairman, Mr. Secretary. It is good to see you today.

I would like to talk about where we are in terms of the reduced number of dairy farms in the United States and other locations around the world.

Sonia, if you would go to the next slide, we will talk about the charge that the chairman gave when we started working on putting this presentation together. The task was basically to look at technological change in the dairy industry and the effects of different countries' dairy policies on dairy farm numbers.

A number of folks have talked about dairy farm numbers and losing dairy farms, so the question really is, is the United States out of step with other countries in terms of their farm losses? That was the task given to us today.

If we start by looking at where the U.S. dairy sits with respect to the rest of the population that live in the United States, we should ask, has this policy been a failure? I think from their perspective, the perspective of the consumer, you would have to say,

no, this policy has actually been a very great success. We have observed declining real prices for dairy products over a number of years. Notice the upward blip we had in 1990 was followed with movement right back down in 1991 and 1992. Also notice that even with declining real milk prices we have also had very adequate per capita milk supplies. There has not been any shortage of milk from a consumer standpoint.

So from the rest of the country's perspective, you would probably have to say that for all its faults, problems et cetera, that the dairy program in the United States has probably been a pretty good success.

If we look at the producers' standpoint, however, there are a couple of areas about which we might have some concerns. If we look at overall farm losses for the United States and compare them to dairy farm losses, you notice that on average in the United States we have lost about 5 to 6 percent of our dairy farmers over the last 4 or 5 years.

Looking at overall farm numbers, and recognizing that USDA considers a farm to be any organization that has more than $1,000 of agricultural sales, you will notice that the loss has been down in the 1- to 2-percent range a year.

So again, dairy farms have gone out of business at a much more rapid rate than farms in the Nation as a whole.

Looking around the world, the circles are Japan, the solid line Australia. Notice that in Japan they have also, as we have, moved through the 1970s and early 1980s, losing farms at the rate of about 7 to 8 percent a year. In 1986 they only lost about 4 percent, but in 1987, the last year we have data on, they were still losing about 5 percent or so a year.

If you look at Australia again, in the mid-1980s they were losing farms at the rate of 4 to 5 percent a year. By the time they got out toward the end of the decade they changed some of their dairy policies and the rate of farm loss that they faced in the past dropped off quite a bit. They were only losing about 1 to 2 percent a year.

Another country just to our north has gotten an awful lot of attention, certainly in this part of the country, as we talk about dairy policy. It is an area that we tend to look toward as an option. Note that farm losses in Canada have been fairly steady. They have been in the neighborhood of 5 percent a year. In 1988, they were down to 4 percent, in 1990 closer to 6 percent.

And Canada, as most of us in this part of the country are very familiar with, does have a quota program in place. They do market that quota, allow producers to buy and sell that quota, but even with that option we do have producers going out of business at the rate of about 5 percent or so a year.

If you look at the European Community, we have had some problems on getting data on farm numbers from the Community, but in general they also are losing farms at the rate of about 4 or 5 percent a year from about 1979 through about 1989.

So again, in most cases around the world we have had farm numbers decline, in some cases a little bit more, in some cases a little bit less, but in general in that 4- to 5-percent range as U.S. dairy farmers have lost as well.

If you go to the next overhead, Sonia, there is a direct comparison between Canadian and U.S. farm losses. Notice that in the mid-1980s we lost farms a little bit quicker, in the late-1980s we lost farms a little bit quicker than they did in Canada, but again, in general, we are talking about that 5- to 6-percent range. And again, we don't have a quota program, as all of you are aware, in the United States at this time.

One country has moved very strongly away from quota programs and has moved basically toward no Government support for their dairy industry whatsoever. That country is New Zealand, and farm numbers in New Zealand, surprisingly enough, in 1988, 1989, 1990, and 1991 were actually up year after year compared to earlier years. It is one of the very few countries we can find that has shown increases in farm numbers, and yet this is a country where they have very, very little reliance on government. They do not have a quota program, and they are basically operating on world market conditions.

One might ask why even with a quota program your farm losses are in the 5- to 6-percent range. Here is some information from Jim Puttman, a pretty popular gentleman this morning. Mr. Puttman is the economist that works for the Farm Credit Bank in Massachusetts. He puts together Agrifax and these are data from that publication. I hadn't received the 1992 numbers yet, so these are basically 1990 numbers on break-even milk prices by deciles. In other words, there is 10 percent of the producers that were in that top 10-percent bracket, another 10 percent in the next line, et cetera.

Notice that we have quite a range on the cost of production, even in the New England or in the Northeast market. We have some of the producers, the top 10 percent of the producers, with their break-even price for milk down at a little more than $11 a hundred. We also have producers that needed almost $19 a hundred in order to break even on their costs. So there is quite a range in the cost of production.

I strongly suspect that if we would find data on the distribution of cost of production for Canadian producers we would find a fairly similar pattern.

Consequently, if one were to come in and set a support price or set some price at, say, $18 a hundred, just to pick a number in order to try to protect the vast majority of producers, the producer with an $11 cost of production is going to be able to approach a producer with a $17 cost of production and say, I will give you $3 a hundred for your milk in order for you to leave farming and let me make that milk instead of you making that milk. And the producer with the $11 cost of production is going to be better off and still be able to make money on the milk or quota that he buys.

Consequently, the idea that moving to a quota program will preclude farm number declines is probably a misperception, that is not necessarily to say that it is good or bad or whatever. But in essence, what you are doing with a quota program is allowing the high-cost producer, the $16, $17, $18 a hundred producer, to extract a fee from the low-cost producer if you allow the market to transfer the quotas from one farm to the other.

The high-cost producer is basically handed this right of production, that the producer will be allowed to sell through whatever market or means or whatever, and the low-cost producer would be delighted to have the ability to go out and produce more milk.

As we have talked about, we have had declines in farm numbers across the country. We are already seeing this shift from high-cost production to low-cost production occur. I don't think this comes as any great shock to us.

Missouri is one of the top six States in the country in the number of dairy farms. We tend to have fairly small herd sizes in Missouri, not all that dissimilar from Vermont.

If you will flip down, though, to one more slide, let us make one more comparison of quota programs. The peanut program is a quota program a number of folks are familiar with. You will notice even there we have had declines in farm numbers. We have lost, on average, about 3 to 4 percent a year with the exception of 1987. A change in the program there generated about a 12-percent loss. That was really more of a policy change than a true change in farm numbers. But in general, we have lost about 3 to 5 percent a year of our peanut farmers.

In summary, Mr. Chairman, the points I would make are that almost whatever policy we end up moving toward, we will lose dairy farmers. I am sorry, but that is a fact of life. It would be my expectation that if we hold up zero-percent loss rate of dairy farmers as the standard we are going to hold any policy to, that we are holding ourselves up to a very unreasonable standard. It is one that we are just not going to be able to obtain.

We will lose those farmers in part just due to demographics. If we look at the average age of dairy farmers, they tend to be a little bit older than I am, I can say that out loud, on average, and consequently one would expect that they will decide to retire, they will quit making milk, and we will not have quite the same number of young folks coming back to replace those producers.

Technology is also going to drive some of this decline in farms. I don't think that comes as any surprise, and I don't care whether we are talking about BSt or whether we are talking about computerized feed systems or whatever. If you look over the last several years of dairy history, we have increased production per cow by about 2 percent a year. As we roll our forecasts out at the Food and Agriculture Policy Research Institute, Mr. Chairman, we continue to forecast about a 2-percent increase in production per cow per year.

As we try to raise prices for milk, don't forget that there are a number of substitutes for dairy products out there in the market. I am not just talking about Casine. How many folks have their children running around, or can see kids running around drinking Coke for breakfast? Milk ain't just for breakfast anymore, but Coke ain't just for lunch either, Mr. Chairman.

I would also say that even with this decline in farms, I would strongly suspect that we will continue to have milk and would continue to have an adequate supply of milk. The real question is going to be, where is that milk going to come from?

Thank you, Mr. Chairman.

[The charts referred to in Mr. Young's presentation follow:]

National Dairy Policy Summit

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June 21, 1993

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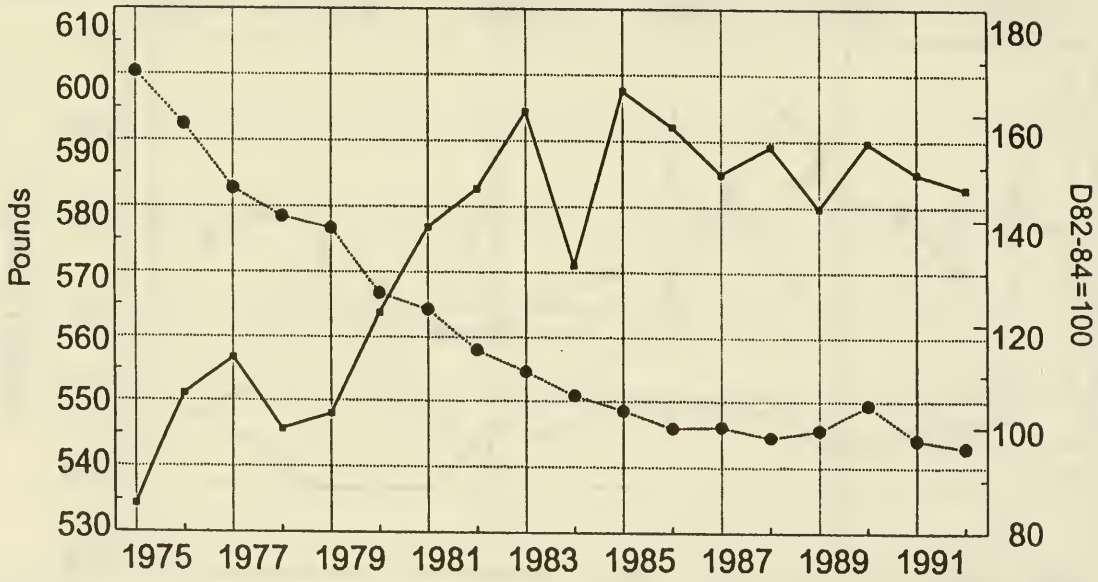
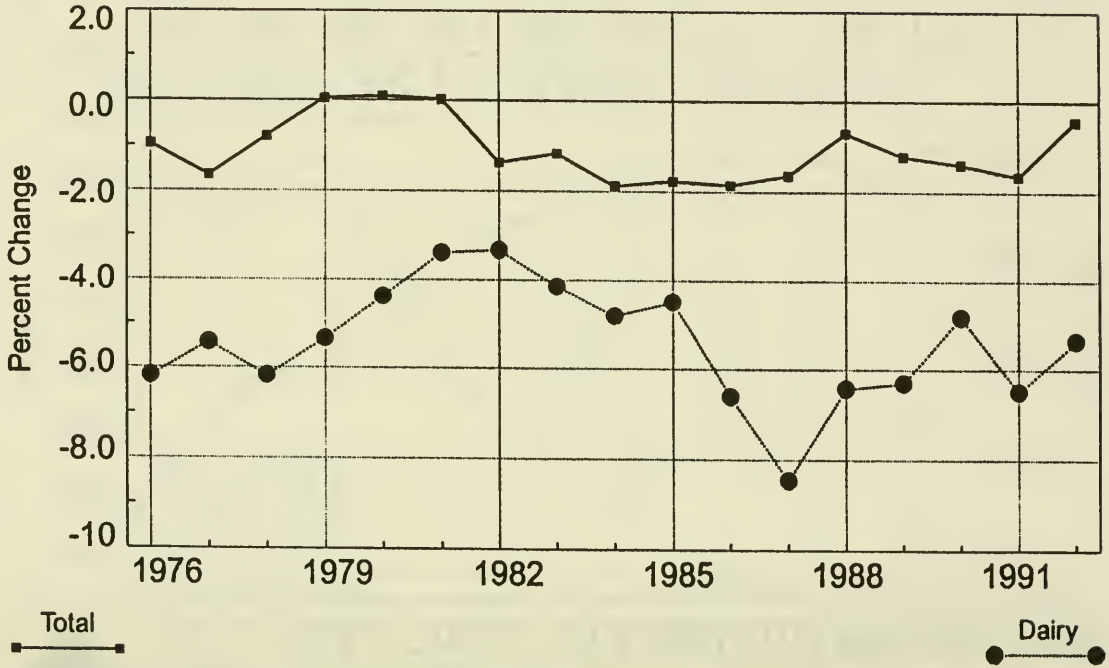
The Other 214 Million Perspective



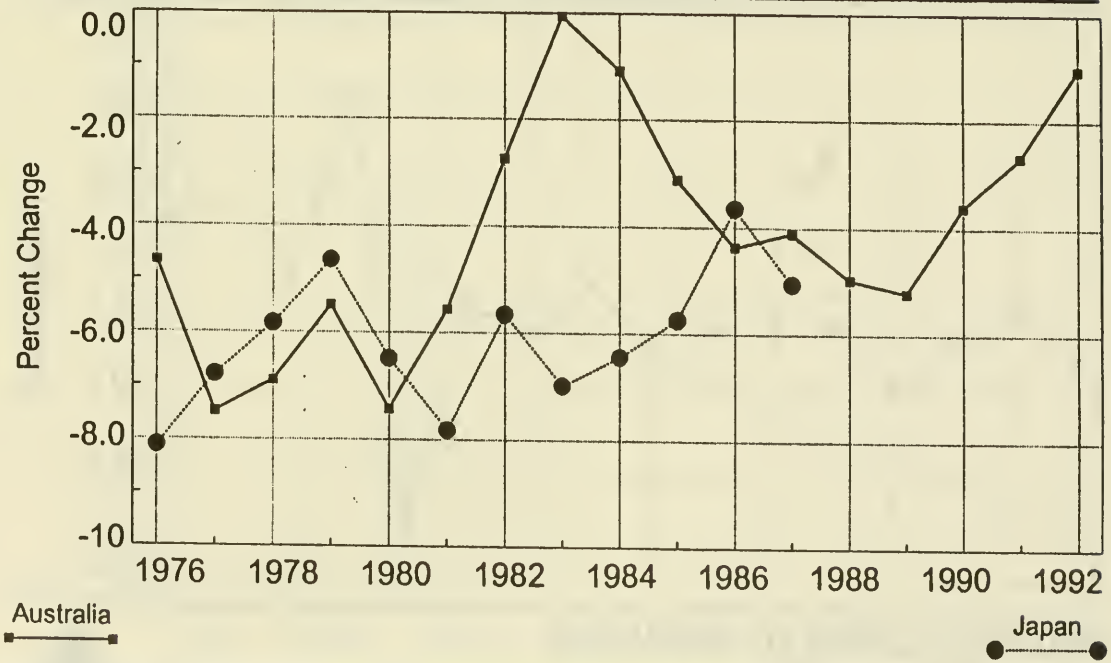
Source: USDA

U.S. and Dairy Farm Numbers



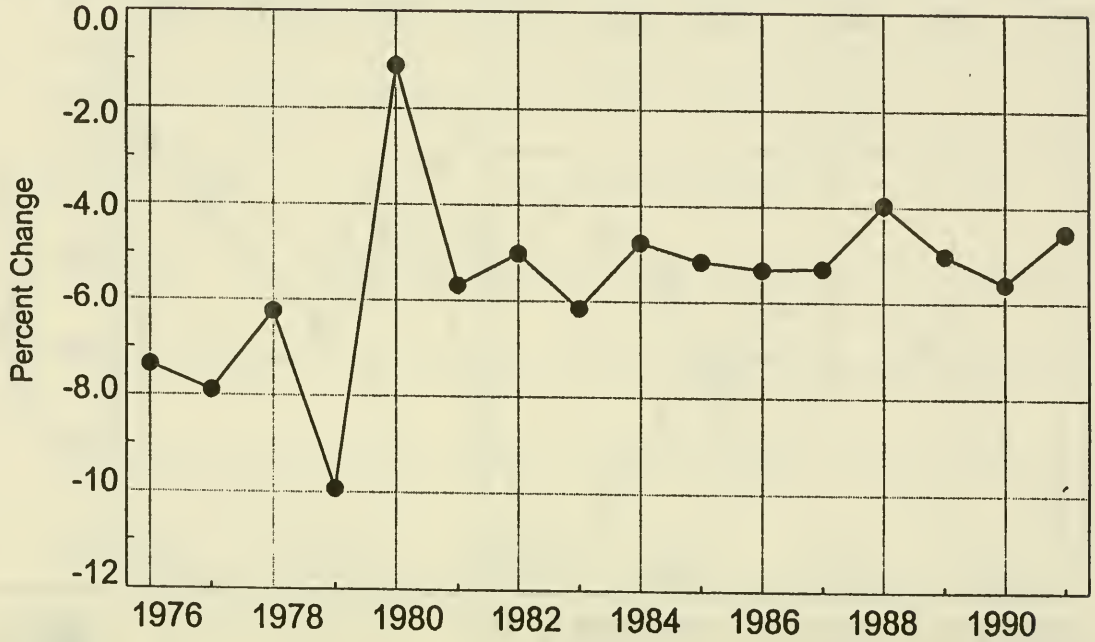
Source: Agricultural Statistics and Cattle (USDA & NASS)

Comparison of Percent Changes in Number of Dairy Farms



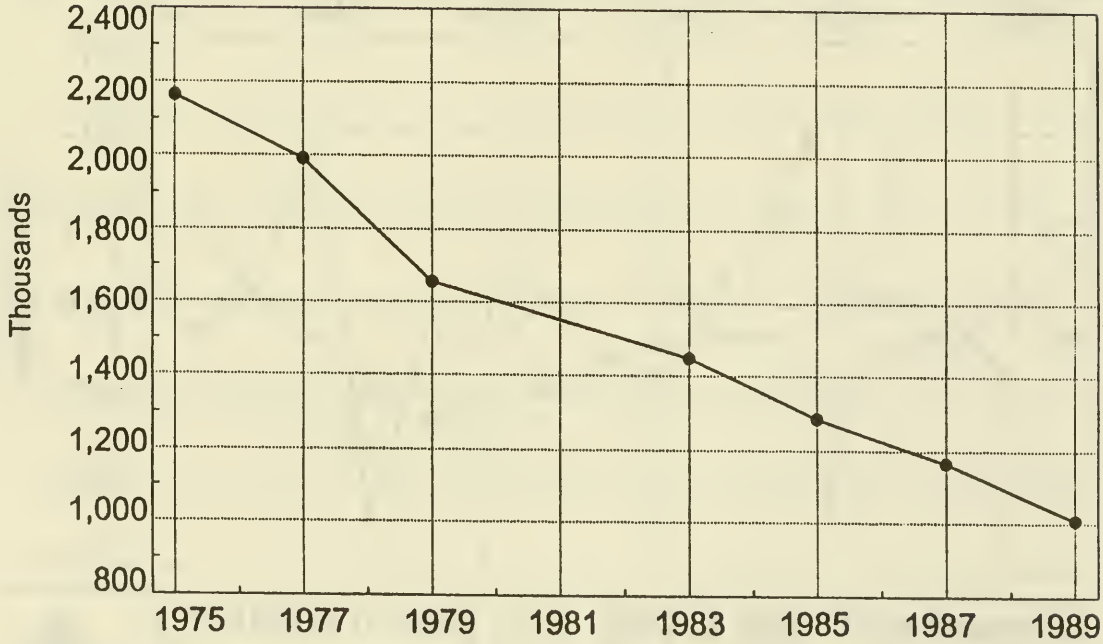
Source: Austrailian Bureau of Agricultural And Resource Economics(ABARE)

Canada's Percent Change in Number of Dairy Farms



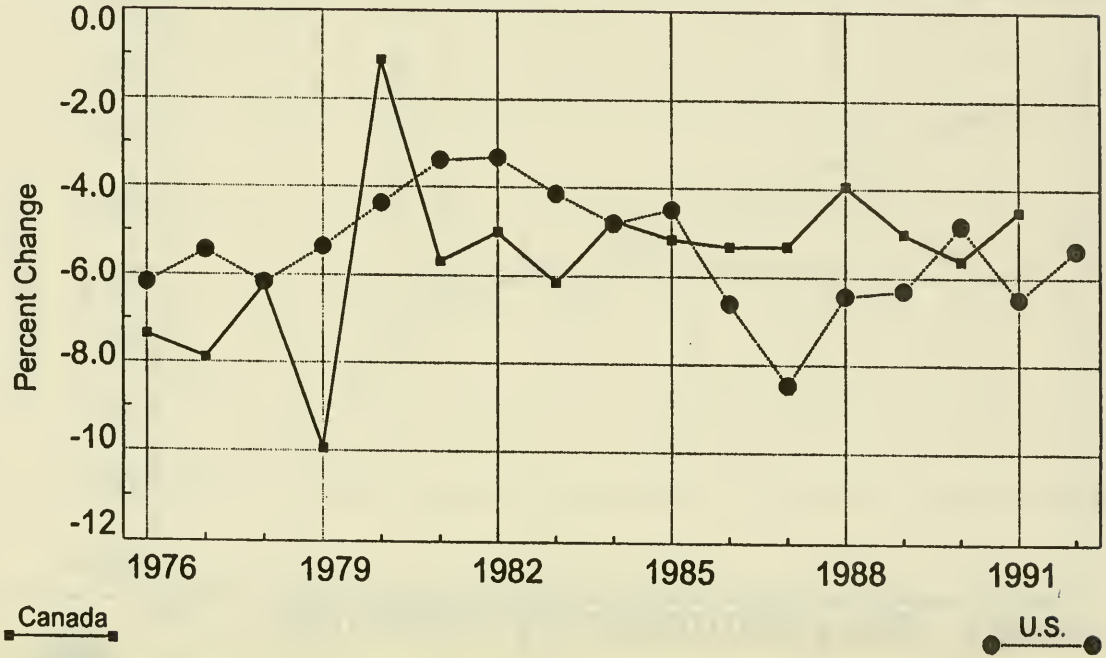
Source: Canadian Dairy Community

European Community Dairy Farms



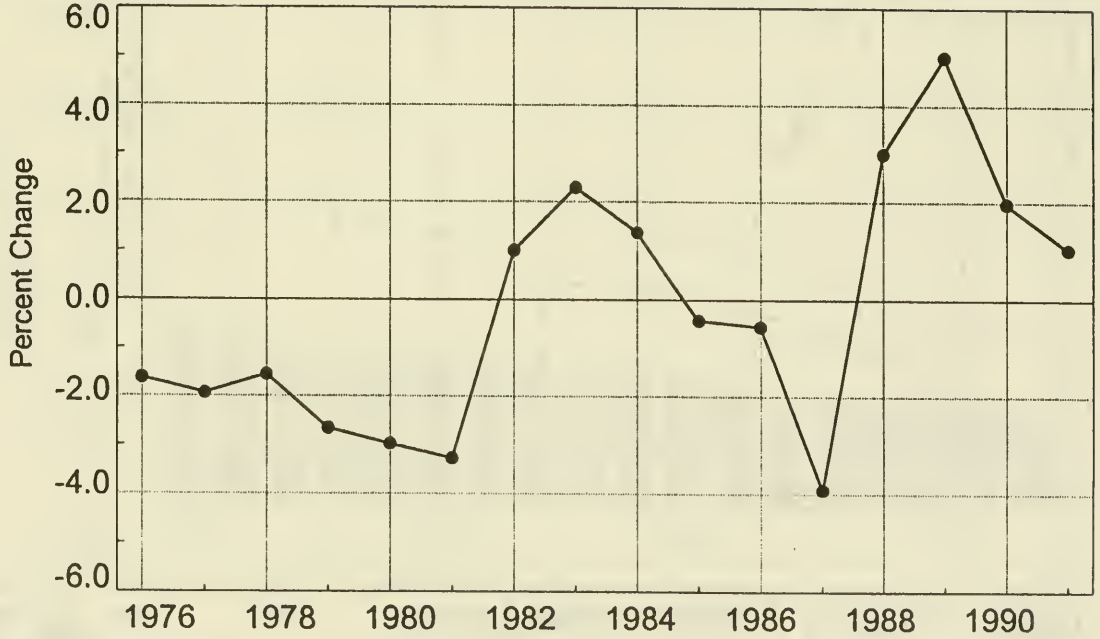
Source: EC Eurostat 1990 and EC Commission, Agricultural Situation in Community 1992

Canadian and U.S. Dairy Farm Numbers



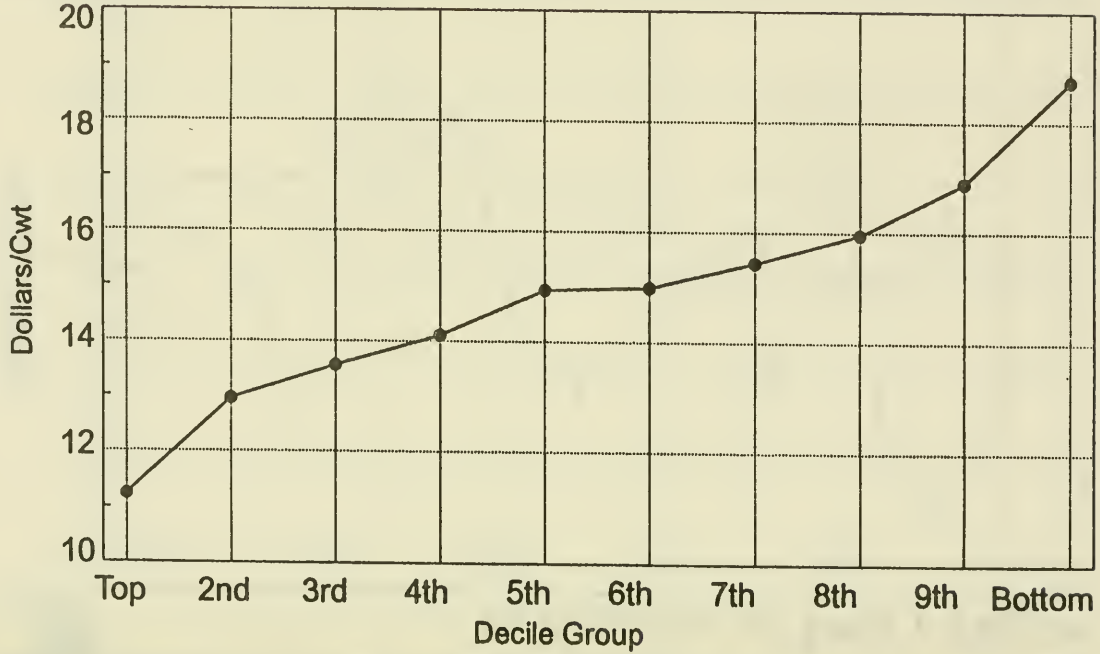
Source: Agricultural Statistics and Canadian Dairy Commision

New Zealand's Percent Change in Number of Dairy Farms



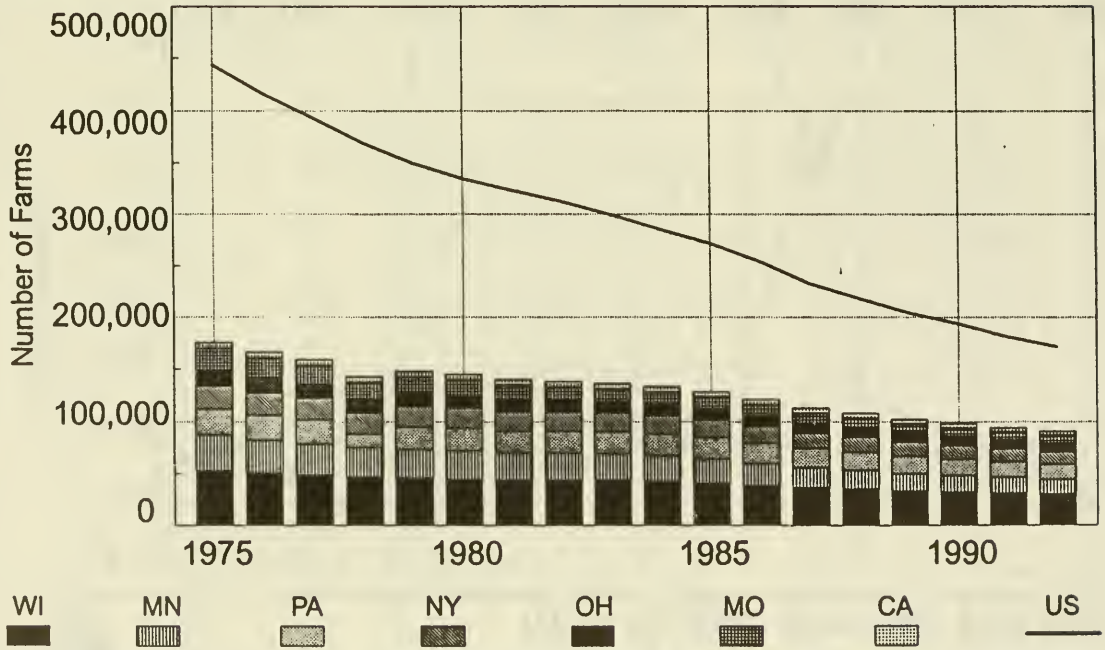
Source: New Zealand Department of Statistics, New Zealand Dairy Board, Ministry of Agriculture and Fisheries

Break-Even Milk Price, by Deciles, Northeast Dairy Farms, 1990



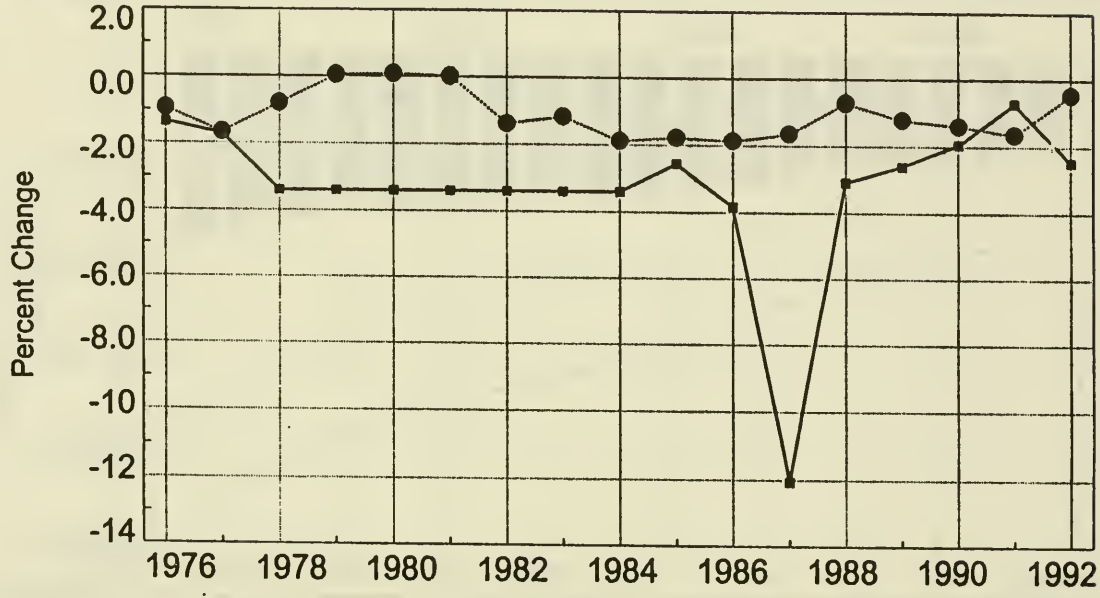
Source: The Northeast Dairy Farm Summary, Farm Credit Banks of Springfield, May 1991

Dairy Farm Numbers by State & U.S.



Source: Cattle (NASS, USDA)

Comparison of Percent Change of U.S. and Peanut Farms



Source: Agricultural Statistics (USDA) and Personal Communication (USDA-ASCS)

The CHAIRMAN. Thank you very much, Bob. As always, you have given a clear and unvarnished presentation, and I appreciate it. [Applause.]

Let me go back for a moment. We started with Dr. Novakovic and his sense of the single biggest policy challenge in the dairy industry being the financial stress that the farmers are facing and the question of whether they are going to survive, although saying in general that the dairy industry is pretty healthy.

I have no question about the stress the dairy farmers today are under, but I would like to get a sense, even though it may be anecdotal, about how the dairy industry is functioning today.

Ms. Doelman, I wonder if maybe to start off the reaction to the presenters, could you tell us, how do you think the dairy industry is functioning today?

PANEL ONE DISCUSSION

Ms. DOELMAN. Well, you just made the reference that some people say the dairy industry is healthy. The dairy farmers are healthy, first of all, because they choose to drink milk instead of Coke three times a day for their meals. [Applause.]

Well, basically this industry is very unhealthy, I feel, and we can look at a lot of technical problems and hopefully we will be able to look at some of the technical aspects and come to some consensus there.

However, I think we need to look at the basics, where a lot of people are saying, yes, something is wrong because of our unstable milk prices. Well, yes, our milk prices are unstable, but when you think of unstable milk prices you think of them either being high or low. Well, our milk prices have been low, lower, lowest. They are unstable, yes. [Applause.]

We have, over the past 5, 6 years, we have had a few upswings in our milk prices, but they have been very short-lived, 1 or 2 months at the most.

The problem is, besides our low milk prices, we seem to have an overabundance of this wonderful supply of milk. Part of it is due to our efficiency. We have turned out to be excellent managers in our dairy industry. We have used all the latest technology, but we should not be penalized for the use of good management techniques. That should not be detrimental.

The problem is our low prices. We have two choices when our prices are low. We either can quit dairying, sell our farm, try something else, or we can increase our milk production in order to pay our debts. It is that simple.

As a result, we have lost a great number of dairy farmers over the last 10 years, but yet at the same time, our milk production is higher than ever.

We need to have some management of the milk supply. [Applause.]

At this point, if we as farmers increase our milk production, that milk is always received. It is always processed and it has to find a place in the market. Thus, our supply and demand are out of balance and thus the volatility in milk prices.

So I see as an answer to our low milk prices, our surplus, some form of managed milk supply.

[The prepared statement of Ms. Doelman follows:]

PREPARED STATEMENT OF MIEKE DOELMAN, WASHINGTON STATE DAIRY PRODUCER, OLYMPIA, WA

Dairying, along with other forms of production agriculture, is a very precious profession. It deserves respect and a deep appreciation by the American public, because here in the United States, we, in production agriculture, produce the highest quality and lowest priced food anywhere in the world. We are to be commended for our efficiency and rewarded for our hard work by receiving a fair price for our products.

Dairy farmers are so efficient that we are constantly faced with an overabundance of our product. However, this surplus should not be attributed to the use of good management techniques. There are other factors that determine our overproduction. **Low milk prices** is the largest contributor. Adjusting to a reduced income, our farmers are forced to increase their milk production to meet their financial obligations, thus creating an imbalance in supply and demand. Another factor is **lack of control over the milk supply**. In most parts of the United States, dairy farmers are permitted to ship all the milk they produce. Our industry's lack of constraint on its milk supply has resulted in unstable milk prices, which burdens not only producers, but processors and consumers as well.

As a result of the above-described conditions, many dairymen were forced out of business and many more will decide to quit if the dairy situation takes yet another bad turn. Our national dairy policy has turned out to be the **"survival of the fittest" dairy policy**—not the intention of the Agricultural Act of 1949. Support prices and Federal market orders were created to maintain stable milk supplies and prices both for consumers and producers and to assure a healthy future for our industry.

Even though there are fewer dairy operations in the United States and our cow numbers are lower, our milk production is at a record high. This all points to a broken system that is in need of fixing. If our industry proceeds with the current dairy policy, we will continue to lose the family dairy farm and will continue to see the emergence of huge dairy/factory farms.

I believe the family farm is the backbone of America. To me, it is what America is all about. It is a fine combination of contributing to society and entrepreneurship.

The family farm supports the economies of our rural communities, which are in need of revitalization, and importantly, it is far better for our environment to have a larger number of small farms rather than a small number of large farms/factories. The larger farms have a greater concentration of animals on small acreage which strains the ecosystem.

Many attempts have been made by our industry to solve or fix these problems. We have looked to State legislators, we have attempted to take matters in our own hands or in the hands of our cooperatives. We have looked to USDA for help and we have come to our congressional leaders. As a result of all these attempts, some adjustments have been made here and there, but they have been piecemeal attempts and have not dealt with the root of the problem—overproduction and low, unstable milk prices.

It is time to adopt an approach to stabilizing our milk production and our milk prices. I strongly urge Secretary Espy to consider the Dairy Stabilization and Self-Help Initiative proposed by the National Milk Producers Federation that was presented at this National Dairy Summit today. I feel this proposal will provide the necessary changes to enhance our unstable industry, plus meet all the budget requirements which will strengthen our Nation's economy.

Traditionally, our industry has had varied opinions and solutions and our polarization has stymied us, for which we must take full responsibility. However, the membership of the National Milk Producers Federation is **united in its advocacy** of this proposal.

Therefore, I ask Secretary Espy to join our dairy industry in pursuing this effort and urge him to approve this proposal.

I express my gratitude for this opportunity to convey these concerns and for the considerations taken by the administration and our Members of Congress.

The CHAIRMAN. Thank you very much. [Applause.]

Normally at a hearing like this, under the Senate rules, we don't allow any indication of approval or disapproval. I am not going to keep to that strict rule today, but I would like to make sure that everybody can be heard.

Is everyone able to hear okay in the back? If you can hear in the back, raise your hands.

Thank you. I once said, if anyone can't hear, put your hand up, and somebody slipped me a note, how are they going to hear the question? But you can hear and understand it. The understanding is probably more important than the hearing.

On the question of whether the industry is functioning well today, I would like to also call on John Malcolm from Vermont. John has been very, very helpful to me and to the committee as we try to figure out how to go through dairy policy, and he took time, as many people in this room did, to spend several hours with me on Saturday in Vermont in preparation for this meeting.

John, I wonder if I could have your reaction?

Mr. MALCOLM. Thank you, Senator.

I would like to commend you for having this meeting. As a Vermont dairy farmer and as a Vermont citizen, we are very proud to have a Senator with the capabilities of Senator Leahy, who has such interest in Vermont agriculture and combines that with his interest in many other spheres of government. I also commend our Senator Jeffords and Congressman Sanders. They couldn't get voted in just on the votes of dairy farmers.

But Vermont does depend a lot on dairy farming. It is 90 percent of our agriculture and it is a big, big part of our tourism and affects many people across the State.

I come from a town that has about 30 dairy farmers now. The two dairy farms that I worked on 20 years ago before I was able to get on my own farm are out of business. This was the first year in Pawlet that we haven't—we have always had farms turn over. This is the first year they haven't been replaced by farmers replacing them. One, there is a possibility, might become a golf course, and one is mostly left idle right now.

We think, and I feel, that the dairy industry is very efficient. There was an article in the Wall Street Journal in the fall that I responded to and they printed my letter along with Secretary Madigan's, who criticized the dairy industry for getting too much money from the Government. I said, I think most industries across the country would love to have the efficiency that we have all developed on our own farms. It is the American consumer that is the benefactor of this, as was mentioned before.

But I think that we can't just rely on this efficiency. In the State of Vermont, IBM is our biggest private employer and they are going through some changes that probably many people never thought they had to take. General Motors, and now even Honda, are forced into the type of situation that we find ourselves in now.

I think, Senator, there are a lot of good farmers out there that have been making some money and can survive, as the chart from Bob Young showed, and there are some that won't, just like in any other industry.

But I think in Vermont, I testified in the Senate 2 years ago and I think that there is a big change in that dairy farmers see that they have to compromise. Too many times we have postured, all of us on our own ideals, and we have ended up with a goose egg, and now we want something and we know we are going to have to compromise. It has happened in all our co-ops across the country. And

I think this recent price drop of the cheese shows the urgency and propels that compromise.

I think what we are looking at is we have a supply management system right now with the assessments, and I think we want to have control of that surplus and have farmers be as creative with that surplus and with that market as they are on their farm in production.

I think it is very possible, I think the threshold of unity across the country is here. It is definitely that way in Vermont. There are very few politicians that get elected for more than 80 percent of the vote, and I think a lot of farmers across the country are getting together above that threshold of unity on some type of plan. National Milk's plan is the focus for a lot of that unity.

[Booing from audience.]

So I think the urgency is there, and I think what we are looking for is not a goose egg but the best possible plan.

Thank you, Senator.

The CHAIRMAN. Thank you very much, John.

As we go through the various ideas and various plans being suggested, I would hope that people will state positions of what may well work.

I note that John was picked as the Vermont Farmer of the Year under a pretty significant competition, and I appreciate his views.

I wonder if, on this side, Gene Paul from Minnesota, if you might give us some of your views on this. How is the dairy industry functioning today? As you listened to these three presenters, what is the thought that comes to your mind?

Mr. PAUL. Thank you, Senator.

Well, as I listened to the presenters this morning as they talk about the industry itself, I was very pleased to hear Senator Feingold talk about the fact that there are people involved in the dairy industry, and I think far too often we think of the industry as the milk and the cows and where are we going to get all these dairy products, but there are actually people involved in agriculture and in the dairy industry.

And as those people are displaced, I think we have to ask ourselves, where do they go and what do they do? They have to have a means of livelihood. And as we saw the numbers that Dr. Young put out as far as the numbers of farmers that were displaced. Where do those people go and what do they do?

Now I recognize that the industry needs to come together. It is well that we are unified on a plan. But it needs to be something that will work for the entire part of the industry, not just the processing industry but for the dairy farmers also. [Applause.]

I want to emphasize that the processors need to make a profit to stay in business. There is nothing wrong with that; that is the way it is run, they have to be that way. But at the same time, one of the things that determines whether or not a processor stays in business is the cost of their inputs, their input being milk. And what happens in the way the system operates is that as the price is lowered, the dairy farmers go out of business and become displaced.

So if we are going to move in the direction of just allowing milk to be produced where it can be produced the cheapest, one of the

factors we have to look at is the inputs that those people are getting into the production of milk.

I may suggest that the larger operations are looking at buying grain at less than it costs the farmers to raise it, perhaps due to the low loan rates we have and deficiency payments that we have that are costing U.S. taxpayers a lot of money.

So when we talk about the industry we have to look at people and where they are going to go and what they are going to do.

Today, one of the big topics is rural development, now that the people have left these areas, what are we going to do out there to revitalize the rural areas and so on. Let me just suggest, and according to my math, and I am not a great mathematician, but a dollar increase in the price of milk would generate $1.5 billion in additional income, which is the equivalent of creating over 80,000 jobs paying $8 an hour. I think that there are a lot of Congressmen, Governors, and so on that would like to create some $8 jobs in their own areas.

So I think that we need to look at the industry as a whole, but we can't forget that there are people out there and we must consider what those people are going to do if they are not on the farms producing milk.

The CHAIRMAN. Thank you. [Applause.]

Gary Corbett is a private processor. You mentioned processors, and I would like to hear from Mr. Corbett. You operate an approximately 150-head dairy farm in Illinois?

Mr. CORBETT. That is correct. I am an employee of Dean Foods. I thank the Senator on behalf of the ownership of Dean Foods, a rather large company that I am here representing today.

We are in the dairy processing business, most specifically in the fluid milk processing business. We operate multiple facilities in about 17 States located around the country.

One of the prerequisites, at least in our opinion, of a successful fluid processing operation is an ample and wholesome milk supply, and I think the industry has been a beneficiary of this. But things that tend to affect the supply of milk also affect us, and we stand up and take notice and spend a lot of attention on that particular item.

I think one thing, to touch upon some of the things that the speakers brought up, is that the consolidation within the dairy industry is not taking place in a vacuum. It is also happening in our business.

I look at the fluid processing business. We have approximately 30 percent less fluid processors today than we had 10 years ago. We have about 30 percent less cheese manufacturers, and we have about 45 percent less people that are engaged in the ice cream business. So we have been participants in this same decline. Those people and those plants that have gone away, those are jobs that have been lost to the industry, and they are definitely a concern to us.

Andy brought up a point that we try to focus on, and I don't know if there is a definitive answer to dairy policy but I would encourage everyone in this room to look at the consequences of policy change. We are losing dairy farmers roughly at the rate of 5.4 per-

cent a year, and I am sure in a lot of people's minds that is an unacceptable number.

If we look at the rest of the United States and we look at that category as defined as small business, those people are exiting the industry at the rate of about 15 percent a year.

Now I don't want to make the point that we are taking satisfaction that our 5.4 percent is better than their 15 percent, but I do think it points up that in our policy decisions we don't jump over into that next category, that the decisions that we arrive at allow us to do the best with what we have.

I think the thing that we become concerned about when we talk about limiting or managing supplies or any aspect of the business is that, if I remember some elementary economics, to a price equation there is supply and demand, and we have to look for that other side of the equation.

I think if you are going to look at legislation that would limit supply, then it is going to sound maybe somewhat trite, but you may have to look at legislation that also mandates consumption, and the chances of that are rather slim.

Well, let us take a look at the numbers. The per capita consumption concerns us as an industry. Mr. Row put up some numbers that appear as though we are holding our own, and in certain segments we are. But most of that is due to the mozzarella cheese business, which is a Class III product, rather than our business, which is a Class I product which gives the greatest returns to the dairy farmer.

In Class I utilization or Class I consumption on a per capita basis, we are down 18 percent since 1965. Over the last decade, we have decreased 6 percent. If we could have simply maintained during the last decade and not lost per capita consumption at a 6-percent rate, I think the tone of the meeting here would be entirely different. I think returns to dairy farmers would be entirely different.

I am a dairy farmer myself in Northwestern Illinois and I have the same concerns that you do, but I think we have to get away from the market ending at our farm gate and recognize that there is a consumption side that we have to address.

So I hope that in our policy discussions that we look at both sides of that equation and collectively come up with the right decision.

The CHAIRMAN. Thank you very much.

You mentioned Mr. Row's numbers, and they show that—well, they speak for themselves. I think that they are very sound numbers, very accurate numbers, but I know that a lot of dairy farmers that are staying in business, their operations are growing, and in many cases new farms are being created.

Let me go to a dairy farmer who is making it work, and I certainly couldn't have the Secretary of Agriculture, who is from Mississippi, here without having a Mississippi farmer speak.

Perhaps Buckey Jones could address how this is working. How can we have, on the one hand, dairy farms going out of business, we know how depressing some of the prices can be, and yet some are obviously making it, and there are areas where farms are being created. What is happening?

Mr. JONES. Thank you, Senator Leahy.

Mr. Secretary, we certainly appreciate your concern for the dairy industry. As you know, you and I share the same State and we are proud of you from the State of Mississippi. We know you will do a good job, not only for production agriculture but for the Nation as a whole.

If I, in fact, talk too fast for some of you folks, raise your hand and I can slow it down if I have to. [Laughter.]

The CHAIRMAN. I want you to know, Buckey, that the Secretary is giving me a simultaneous translation over here in my New England ear. [Laughter.]

Mr. JONES. The dairy industry is a very complex industry and I think most all of us recognize this. You hear on one hand, and let me refer to Ms. Doelman down here. She and her husband are friends of mine and cohorts on the National Milk Producers Federation Board. Sometimes people outside of the industry cannot understand some of the things we say. She just said that the dairy industry is very unhealthy, and I believe her. She speaks from experience.

But on the other hand, you look at the numbers from the great State of Washington and production is up 7, 8 percent and growing. Evidently somebody in the State of Washington is doing well in the dairy industry, because if all of the production figures in the State of Washington were below cost there would not be an expansion of production of that magnitude.

In my State, certainly there has been quite a bit of talk. We have heard quite a bit of the Class I differentials discussions over the last several years, and my section of the world has had to defend the Class I differentials and certainly we had no problem doing that, because we continue to produce less of the percentage of milk that we consume in our area.

If, in fact, Class I differentials are a problem, as some suggest, you would think that milk would be flowing north out of Mississippi into Wisconsin to fill the Class I needs in that State. Certainly that hasn't happened, and it won't happen.

But if we look to the future, where does the future of the dairy industry lie? We have had three sets of charts put on the board here behind me, and they all indicate something that all of us need to take notice of. The truth of the matter is that there are advances in technologies, there are those who are better managers than I, there are those who are good dairy farmers that happen to be able to produce at a lower price. We are in competition with one another as well as the world, whether we like it or not.

Now I say to you, Mr. Secretary, that the dairy farmers of this country, even though I am in a Class I market and I have no intentions to compete on a national basis and have no intentions to compete on a worldwide basis, but the dairy industry can and will compete on a national and an international basis. We can compete on a level playing field. We can compete with the Australians. We can compete with the New Zealanders.

But while we are competing with those folks, we want to also be able to compete with the Europeans as well, because given a level playing field, the dairy industry in this country has a great future and can survive and will survive, but we cannot compete against the coffers or the treasuries of the European Common Market. We

cannot compete against other governments. It is, in my opinion, the task of Government, it is the task of Congress to give us the opportunity to do that, and I think they will over time.

I say to you in all sincerity that as we look at our world today, there is, as many people have pointed out over the last 2 or 3 weeks, there is hunger in this country and there is hunger in this world. Dairy farmers reject that, they resent it, they want to do their part, they want to do what is good for the country, and we can. Hunger should be totally wiped out, not only in this country as well as the world, and we dairy farmers can contribute, but we do not want to have to contribute on a basis of someone dictating that we, in fact, do it at a loss as we look at the cost of production.

Where do we go from here? The dairy industry is at a crossroads. If we do nothing, there will be survivors. The numbers indicate that. If we take drastic action, there will be survivors, but there will be trauma within the industry. You cannot ignore the marketplace, you cannot ignore supply and demand, you cannot ignore that we are 140,000 dairy farmers versus 250 million consumers. One of these days, dairy farmers will understand that those 250 million consumers are not the enemy and we are not against them. They are our customers and we need to treat them as such.

If we go that route, we can build a market, we can do the job, and we will, given a level playing field.

Thank you.

The CHAIRMAN. Thank you very much, Mr. Jones. [Applause.]

I would like to hear from another dairy farmer, Charlotte Pellegrini, who is here from Senator Feingold's State.

We have heard the statistics on the changes in dairy farms in Wisconsin. Ms. Pellegrini, could you give us your perspective, especially on what you have been hearing here today?

Ms. PELLEGRINI. I was wondering if you could hear me, first. I don't know if I have this situated right.

The CHAIRMAN. Can everybody hear okay?

Ms. PELLEGRINI. Wisconsin's dairy producers would like to thank Senators Leahy and Feingold and Secretary Espy for inviting us here. Our dairy producers in Wisconsin are barely surviving. There are some that are doing okay, but most of us are not.

We have all we can do to pay our current obligations, and this carries through into our rural communities. Our rural communities are not surviving. We have modern-day ghost towns in Wisconsin.

We have an aging infrastructure and our farm population is aging, and we have neither the funds to replace one, nor the human resources entering into dairy to replace the other. We need an incentive in Wisconsin to attract young producers. There are a lot of us who want to retire some day. We don't want to die with our boots on, and I am afraid we are going to.

The price paid to our producers we feel is deplorable. We would like to see the costs of production and a return on our investment. That has all pretty well been covered.

A lot of Wisconsin producers would, and I don't know if I should bring this up or not but I think I am going to, we would like to see an investigation of the National Cheese Exchange. [Applause.]

We would also like to have an investigation of companies like Kraft, Phillip Morris, General Foods. [Applause.]

They are reaping windfall profits while we are starving, and that is unfair.

Another thing that I think Wisconsin would like to address is we have programs that come out from time to time by university folks and others who suggest that perhaps the dairy farmers should adopt some off-farm income, and we really resent the fact that we are already working 7 days a week and folks that are maybe working 4 or 5 days per week are telling us to go out and get another job. That is unacceptable, too. [Applause.]

We had an older gentleman, dairy producer, who wrote a letter once to Agri-view and said that when we had $3 milk in the 1950s we had 3-cent postage stamps, and when we got to the 1990s, the post office needs 29 cents to survive but we don't need $29 milk. And he also stated that if our milk price reflected what taxes had done, we would have $50 milk.

Now I know those prices are a little high, but we get a price that is closer to disparity than to parity and we are very tired of that in Wisconsin. [Applause.]

Wisconsin would be very happy with a moratorium on the bovine growth hormone. We think that it will have damage to the export markets. [Applause.]

We are very happy that Senator Feingold and others, Senator Kohl, have been working on a moratorium.

The National Milk self-help program, a lot of Wisconsin producers feel that this is just another board that is going to help themselves to the farmer funds. [Applause.]

We already have a Wisconsin milk marketing board, we already have a national dairy board, and we are trying to vote that national dairy board down. [Applause.]

And Secretary Espy, your friends in Wisconsin really do appreciate you a lot more than they ever did Edward Madigan. [Applause.]

Another option for us would be in the rural economic development line. We would like to see options in dairy to include direct marketing approaches and to really work with small specialty cheese firms or people that wanted to work with premium yogurts or premium ice cream, whatever it would be. We just don't want to work with the cooperatives and the large producer handlers. Their middle management and upper management folks are living a Cadillac lifestyle while we are expected to live the lifestyle of a 1963 Volkswagen with retreads maybe in the good years and we are really tired of that. [Applause.]

Despite technology, it seems the more our farmers adapt to technology we just get more efficient, we produce more surpluses, and in the end those surpluses come back to haunt us.

I guess I will shut up at this point. Yay. [Applause.]

The CHAIRMAN. Ms. Pellegrini, I appreciate your being here. One of the purposes, as I said, we have tried, and I think as I said earlier, hundreds of hours have been put in by myself, my staff, and everybody else, to bring as broad a cross-section as possible. And one of the reasons why I am holding off the comments from the audience until the end is so that everybody can be heard first, and then we can respond to them.

I know Mr. Whorton, being from Alabama, you come from a different type of dairy production or different market factors than I see from my part of the country. I know I discuss it often with Senator Heflin, who is on our Senate Agriculture Committee, and I would like to hear from you, sir.

Mr. WHORTON. Thank you, Senator Leahy, and again, we appreciate this opportunity.

Mr. Jones, my friend from Mississippi and president of my co-op, made a statement about the producers in Washington State. Somebody is doing okay, 6 or 7 percent more milk this year than last. Buckey, you just don't get it. They had to produce it to cash flow. [Applause.]

Mr. WHORTON. Bob Young, several statements that Bob had, and gosh, I love Bob, enjoyed working with you during the 1991 situation—we are looking in Bob's graphs at the percentiles in the 15 or 20 that are producing milk for what they are getting it for or what they are pricing it for. Probably 15 or 20 percent of dairy farmers in this country are making a living, a bare living, if they don't owe any money, if they didn't listen to our Extension people 25 years ago and went to a grazing program rather than building silos and buying tractors. Sure, there are a few making money, but it is very, very few.

We have lost 55 percent, and I understand the normal trend—I didn't realize that until today—was 5 percent a year for 10 years, so we are pretty much par for the course in losing 150,000 dairy farmers in the last 10 years.

In Alabama, we have 298 left. It won't be long until there won't be any. We have a serious problem.

I come to this panel today, I think, in a unique position. In 1991, a group of dairy farmers and an organization in Alabama got together and started an ad campaign through the bible of our industry, the "Hoard's Dairyman." It is most respected by dairy farmers all across the country as far as those producing milk and the background for that.

We were successful in talking to dairy farmers, me personally, to dairy farmers in every State in this country, every State in this country. It was unreal to see how similar we are to one another. All of us were feeling that we were producing milk below the cost of production. We had heard about the Southeast blaming Wisconsin for all of the problems, but that wasn't necessarily the case when we got down to talking to dairy farmers. Sometimes their organizations used that to pit one against another.

But I will tell you, through this campaign, the ad campaign that we put forth in 1991, it showed me in talking with dairy farmers that we are all in the same boat.

Now we can listen to the talk about global trade. We all know we can't produce the milk for the price that the milk is selling for on the world market. We still have enough numbers today, if we work together as grass roots dairy farmers and tell our organizations, tell our legislatures, our Congressmen, our Senators, our Secretary of Agriculture, that we have got to do something if we are going to keep the concept of the family dairy farm alive.

The only thing we can do is to control our inventories, no different than any other business. [Applause.]

The only thing we are asking for is for Congress to give us the tools to control our inventories. We will be able to survive, we will have a viable industry in this country, you will not be depending on barges to bring your hard products to you as we are heading toward if we go down this route of global trade to wherever the cheapest product could be produced, and 55 percent of today's total production is product that can be shipped from anywhere. That leaves 45 percent for the rest of us to produce, and that is the way we are headed.

We have many large herds, and mine is considered, or it was 10 years ago, to be a large herd in Alabama. We milk about 300 cows. We have a rolling herd average of 19,000 pounds, pretty good, I think, in the Southeast. I think I am pretty efficient. We milk them three times a day. But we are producing milk for about $1.50 under what it costs.

Now you will have some that don't believe that, but I challenge any dairy farmer here to go home and put their 12-month average today. Don't tell me about the good months, put them all together, and what you are doing, you are eating away at your equity, and that is what all of us are doing. [Applause.]

We have two choices today as we move into this crossroads of new dairy policy. We can go on as before and listen to those who represented us in the past without telling them different and we can meet this 5 percent a year and we can all figure in which year we are going to go out in.

Or, we can all get together and we can tell our cooperatives, our organizations, that we want to control inventory through two-tier pricing, and we can state, and I really believe that when you talk to dairy farmers, as Ewing I think maybe had in his statement, you have had poll after poll that showed dairy farmers saying if they had the option, two-tier pricing would be the way they would go, supply management, 75, 80 percent. And I believe that is the case everywhere.

I have had the opportunity to travel to every region of the country on this campaign that we are in right now, the national dairy campaign, and it is just without exception. There is no doubt a few people that are against it. You have got people that think free market is the only way to go, if it is $5 a hundredweight.

But most dairy farmers, if the Senators and the Congressmen and the organizations and the co-ops want to listen to dairy farmers, two-tier pricing is the way to go.

Thank you, Mr. Senator. [Applause.]

The CHAIRMAN. Mr. Whorton, I wonder if I could follow up on one question based on what you said.

As I have said, so far I have not kept the Senate rule on applause and I think everybody who has testified here today deserves applause for the time and the effort they have put into it. I would only ask that we keep on schedule so that we will not have those blocked from being heard.

Mr. Whorton, could I ask you this. Nobody questions that we as a country have some of the most efficient dairy farmers anywhere, and sometimes we can say it is both our blessing and our curse for that efficiency. We can produce all the milk this country needs. We

could produce far more milk if we wanted than this country needs. That could probably be said of most of our commodities.

In fact, that is one of the great strengths of our Nation. I think it is as much a part of our national security, that fact that we are able to feed ourselves, and has to be considered just as much as we consider the size of our Army, our Navy, and our Air Force. We are the only major power in the world able to feed itself and have food left over.

Let me ask you this. In the dairy industry, have we, however, been as efficient in both our marketing and our response to consumer needs or even in helping to create consumer needs and consumer wants? Have we been as efficient at that end as we have been in our production end?

Mr. WHORTON. I think we probably haven't. There is no doubt that we could have done things through the years, as I think I understand your question, that would have—well, one thing that is laying out there today, I think we are looking at this butter fat situation that we should have addressed 5 years ago, component pricing certainly should have already been addressed. If we sit back and get into a critical situation before we do address that, there is no doubt that the health-conscious consumer that we have today we are not talking to in the terms we should be, and I certainly think that we could do a lot more along those lines.

Price-wise, the individual dairy farmer is not rewarded for doing those type of things, and as an industry we certainly need to move in that direction, but individual dairy farmers working along those lines are frustrated, particularly some of us here who have worked for 20 years and we see things that we think are going to happen, we get a higher price and then we lose it and then we are back where we started.

So I think that is the reason, probably, we haven't moved any more that way.

The CHAIRMAN. Thank you.

We talked about Dr. Young's numbers, which I have found extremely accurate but also raising as many questions as they answered. He raised a very interesting question, the rate of loss of dairy farms in the countries of the world seem to be about the same even in countries with vastly different dairy policies, where they have supply management or heavy government subsidies with the exception, I guess, of New Zealand, where there are no government policies.

Now we have used a change in dairy farm numbers to talk about how well our farm policies are going, and I wonder, and I am going to ask Dr. Riemenschneider to sit in here for me, but let me ask this question before I step out for just a moment. Is the change in farm numbers a good indicator for us to use? Ms. Hanson, you are a dairy farmer from Minnesota, and I wonder if you might address that.

Ms. HANSON. Well, I think we have a real deep concern about the numbers of dairy farmers that are leaving the industry. Dr. Young alluded to the fact that this is nationwide and this is also taking place in foreign countries as well.

I think the thing that we as dairy farmers and consumers have to be aware of is that we do have a supply of milk to feed the

world, and when we look at the health programs that we have in this country, dealing with the WIC programs and talking about the milk lunch programs in our schools, I think that we have to be very concerned that we have a number of dairy farmers that are going to supply that product.

Dr. RIEMENSCHNEIDER [presiding]. Mr. Eckel, would you like to comment on the same question? Is the change in farm numbers a good indicator to use?

Mr. ECKEL. Well, I think the change in farm numbers is certainly one measure to use, and I think the important thing in looking at that is that there is no magical solution, as our first presenter indicated.

One of the concerns that I have as we come here to Pennsylvania, and I want to welcome you here to our State, is the fact that we believe in such a meeting we can magically change the dairy economy overnight. That is a false impression to give. The hope is that we create an understanding that will shape change into the future, that will benefit the farmers here, improve their net income, and I think that is one thing that the dairy industry can agree on. We want to improve the net income of dairy farmers.

We also want to maintain a competitive industry, an industry that gets the credit it deserves for improving the nutritional well-being of our citizens.

The Secretary expressed in his early days, and I heard him at the first House Agriculture Committee hearing, express his commitment to expanded nutrition programs and food assistance in this country and throughout the world.

I am proud of the agriculture industry and the dairy industry I represent because our efficiencies and competitiveness have given us the ability to do just that for the American public and the rest of the world, but we haven't received proper recognition for it.

I raise one concern I have that I don't think we are emphasizing enough today. As we look at how to improve net farm income, we should look not only to the Government but also at other ways.

Assessments for the dairy program this year will cost American dairymen $175 million. Those assessments were written in an environment when the farm program cost $2 billion. Those dairy assessments are wrong. The only assessments for deficit reduction in the United States today are on the backs of dairy producers. They should be removed. [Applause.]

Recognition needs to be given to the progress the dairy industry has made in becoming more market oriented and reducing our expenditures from $2 billion this year to a net of $125 million, and if you add back in the $175 million of assessments, it is still only $300 million. That is one-sixth of the cost we had for the dairy program just 5 years ago. Congress needs to give credit to the industry for that progress.

One other area that is important to us is world trade. The point was made here today that we can compete with producers around this world because we are efficient, and that is true, but we cannot compete against the European Community's treasuries. Last year the European Community expended $12 billion to buy markets that belonged to agricultural producers in this country. Those subsidies need to be negotiated down and a successful round to the conclu-

sion of the GATT negotiations will improve net farm income and market opportunity for every dairy farmer in this country.

Thank you. [Applause.]

Dr. RIEMENSCHNEIDER. Thank you, Mr. Eckel.

Mr. Cotta, would you like to comment on whether the change in farm numbers is a good indicator to use in evaluating the effectiveness of current dairy policies?

Mr. COTTA. I think, again, it is but one indicator. I would like to follow up on Mr. Eckel's comment somewhat, and that is of the top 12 entitlement programs of the U.S. Government, only the 12th, which is farm price supports, showed an annual average percentage change in the negative position in years 1985 through 1991.

Of even more serious concern is the projections for 1991 through 1997. Of the top 12 entitlement programs, only one shows a decrease in outlays for that period of time and that is farm price supports.

Again, I think dairymen, as has been mentioned, do not receive the credit that they are entitled to for the effect on the budget that they have had.

While there may be a great deal of discussion on what is the right direction for dairy policies to go, I would offer some suggestions, I think, that could be instituted rather quickly and all have a positive impact on producer income.

Number one, I believe component pricing should be adopted as soon as possible in the Federal Market Ordering System, and those component prices should be based on end product usage.

Secondly, I believe the provisions of the current assessment program should be looked at to allow those producers who contract in advance not to increase production in a given year, their refunds should be submitted back to producers on a quarterly basis rather than waiting for the end of a 16- or 18-month period of time.

I believe the current DEIP program should be continued and expanded, and as producers, we need to look at a domestic DEIP program whereby the dollar assessments now being collected by USDA should be moved into domestic feeding programs such as WIC, school lunch programs, and other improved entitlement programs through couponing and other methods.

Also, from a producers perspective, there is no reason why we ought not be selling a fluid bottle of milk from coast to coast that tastes the same, looks the same, and has the same components in it as it does whether it be New York, Florida, or California.

I would offer those as improvements for the current program.

Dr. RIEMENSCHNEIDER. Thank you.

The CHAIRMAN. Incidentally, one thing I should indicate, one of the hardest working gentlemen who is right at this table here is keeping a transcript of all of this. One of the reasons I wanted that transcript is not just for the people who are here but for some other Members of Congress who haven't had a chance to join us, so that they, too, can hear what was said.

Dr. Novakovic has talked about the cost of production and where we are going. I might note that cost of production can mean different things to different people, depending upon where you are, what type of farm you have, and where your market is. Perhaps

Mr. Goold could address what we should pay attention to in talking about the cost of producing milk.

Mr. GOOLD. Well, the cost of production of milk, Mr. Chairman, is a very important item to dairymen, but I would like to move beyond the cost of production and let us use the famous word profit. Why don't we not only cover cost of production but we make a little money in the process? That is not a bad word. [Applause.]

I am here this morning pinch hitting for Tony Souza, who is a dairyman who had his electricity go out over the weekend and was unable to make it, and I appreciate the fact that he was trying to be here and that you have allowed me to speak in his behalf.

I want to make the point that has been made before and that is that the Government has made out very well on the dairy policies of the past few years, extremely well. I think the new policy must reward producers for their effort, and that reward has got to come in the term of profits.

We are in support of a supply management concept. Today's program has bases in it. We would look at the option, however, and would like that included. Why put together a program that buys it after you have produced it? Why don't we look to incentives to not produce it in the first place so that the market can respond?

However, that raises some questions for the doctor from Cornell, and that is as we get closer and closer to equilibrium, will we gain stability? It indicates to me that as we got closer to equilibrium and supply and demand, our stability has gone out the door. I guess we could stand instability in prices as long as it was high prices that were unstable as opposed to low prices and stable prices.

If we are to establish a marketing board, that board needs some tradeoffs. If it is going to give the responsibility for handling that product, it needs some authority. And if it has the authority, we cannot accept total and complete interference by the State Department on what would be done. We don't want that type of tradeoff. We want to be able to handle our product in a meaningful way.

I think that the concept of allowing people to contract rather than pay the assessment and then ask for it back, I think we should allow them to contract that they don't pay the assessment in the first place, retain the money that they have and use it on the dairy and get the interest off it as opposed to putting it in the Government coffers for that period of time.

So there are some things that we can do. We were talking the other day about only about 40 percent of the people are currently participating in the refund program. I think if we could raise that number to 50 percent participating in the refund program we would probably bring us so close to equilibrium we would be there, and we need to look at some of the concepts that could just modify what we have and see if it works. We don't need to throw the baby out with the bath water.

Thank you.

The CHAIRMAN. Thank you very much, Mr. Goold.

Before I turn to Ms. O'Brien for her comments, let me just make one announcement. If you don't have a name tag and you want to stay for lunch, please stop by the registration table and purchase

your ticket, because we will be shortly breaking for lunch, although when we do we will then reconvene sharply at 1:30.

Ms. O'Brien, I would like to hear from you. Again, I thank you for filling in here, too, this morning.

Ms. O'BRIEN. You are welcome, and I am grateful to be here. I have left my husband at home, as I usually do, milking the cows and taking care of the kids and getting them back and forth to softball and baseball and all those sorts of things and am anxious to get home myself.

I will be brief in my comments. I would like to cover several areas that I don't think have been covered, and I want to say that I can hardly improve on what my sisters and brothers in dairy have already said. What they have said is very accurate and very true, and I believe in the beginning of our conversations this morning, in our discussion that we talked about there is a difference between processors and producers, and I am a producer of a raw material called milk and I sell it to a processor who has to go on forward to sell it to the consumers. It would be nice if all of us could have a profit and be a stable industry in our country.

I have some real questions that pop up into my mind when we look at FAPRI's statistics about the loss of farms. I don't think any of us expect the number of farms to remain static. I mean, we always know there is going to be some loss in farms, so I don't think that there is anyone coming with the expectation that we don't want any dairy farmers to go out of business. Age, change in occupation, change in career, those sort of things are going to just lend itself to that anyway, but what we all feel is that the current rate of the loss is too high, and especially when we see our neighbors go out of business and ourselves go out of business.

I think when we look at those numbers that we also have to look at numbers that include some analysis about the economic impact in our rural communities about what happens when a farm goes out of business. All of us through the 1980s have said, well, when one farmer goes under then five businesses go under.

We have used that, and I don't know how accurate that is, but I know that in my community in Iowa, in southern Iowa, that we have gone from three implement dealers in the 1980s to one implement dealer and that we have to go extremely far, and I know other farmers are in that same position here. We have to drive 50, 60, sometimes over 100 miles to find parts for our used equipment because we can't afford new equipment at this point, and the old equipment is overpriced for the condition that it is in.

So I would just like to say that I think there should be some economic impact statements on our rural communities when farmers go out of business. There are only 8 dairy farms in my county now, and at the time of the whole-herd buyout there were 25, and the whole-herd buyout was what, 1988, I believe. I have lost track of when it was, but that was less than 10 years ago there were 25 dairies. As you can see, we are not a large dairy-producing county, but northeast Iowa is.

But I would like to say also that there are three other things that concern me that Senator Feingold had touched on earlier, and one has to do with the bovine somatotropin or the bovine growth hormone, that if we are looking at technology such as this, as bio-

technology, I don't think any of us wish to halt the progress of technology but we want to question whether or not that technology is going to help those people who are directly involved in that industry.

At this point, we are all talking about surpluses of milk, and when we look at bovine somatotropin, we as farmers are saying, who is this going to benefit? Most of us have reached the conclusion that it is going to benefit the pharmaceutical companies and their profits and not the farmers, that it is only going to displace us from the land. [Applause.]

It is only going to add to the surplus, which will then lead to loss of more family farmers.

I would like to also look at land use and abuse. I think that dairy farming is a very sustainable approach to agriculture, and sustainable agriculture is a very hot issue right now. We use crop rotation, we use pastures, we use a way of farming that is not so much monoculture as corn and soybean production, and I think we have to look at the different parts of our country, the different parts of our regions, and the different parts of our States that are amenable to dairy farming and what dairy farming does to help those regions of our country, that crop rotation is very good.

We can cut down on the amounts of chemicals that we need to use for nitrogen and for weed control, and I think that that is a very big issue that we should look into. If our farms get bigger and bigger, will crop rotation be a part of that farm and will the land use not be land abuse?

I also think that we have talked a couple times on trade, and I think that a number of farmers in this audience would agree with me in saying that with the GATT negotiations and the North American Free Trade Agreement, that none of us as farmers who have been under the policy, the American agriculture policy, for the last 40 to 50 years would wish that type of policy upon our fellow farmers in other countries of the world, and that we don't want to see farmers displaced because of us taking over a market.

We think there need to be trade agreements, there need to be formal trade agreements, but also again, one of those things that has to be looked at is who does it benefit? Is it benefitting farmers or is it benefitting agribusiness?

I think that there is a big difference between processors and producers, just as I think there is a big business between agriculture, of which I am part of, and agribusiness, in which the input industry is a part of, and it is time that we in agriculture reclaim our place in the economy.

Thank you. [Applause.]

The CHAIRMAN. Thank you very much.

Ms. O'Brien, I am struck also by what you said about the multiplier effect, as farms go under and the farm implement dealers close and farm suppliers close and that puts even more pressure on it because, then if you have to drive that 150 miles away instead of 5 or 10 miles, obviously your costs are higher.

Just for background, first. When I became chairman of the Senate Agriculture Committee, I realized that the committee rarely traveled out of Washington, and I changed that. We have done

more field trips into other parts of the country to hear people since I have been chairman than ever before.

That is why the day I announced that we would have this hearing I announced that it would be outside of Washington. I didn't know where, but I knew it would be outside of Washington. Secretary Espy and I could discuss putting it together in Washington, but we would do it outside.

I visited one small town with another member of the Agriculture Committee. We went to a high school. Now this is a beautiful town, but heavily hit by farms going under. They weren't dairy farms in this instance, it was another commodity.

We went into a high school and went to the gymnasium and the high school junior and senior classes came in. These were some of the nicest young men and women you would ever see. I mean, you would be proud to have them in your community just as I would in my own community in Vermont. And they asked all kinds of questions, intelligent, bright youngsters, and we listened to every one of them, as they told how much they loved their families and their homes and so on.

Then the other Senator asked this question. He said, how many of you expect to leave here to get a job? And virtually every hand in that high school went up. And I thought, how terribly sad, that with all the beauty of the area, the land and everything else, the greatest treasure they had were these children, and they all assumed they were going to have to leave. Now whether farming had been prosperous or not, some would leave anyway, but not all of them.

And I think that if we as a Nation don't look at that, we are not going to provide farms as some kind of a historical monument or a museum, but by God, as a Nation, if we don't understand what an underpinning our farms are, then we lose a great deal. [Applause.]

So I thank Dr. Novakovic and Mr. Row and Dr. Young. I know they each put a tremendous amount of time into this, but also Denise O'Brien, Jay Goold, Gene Paul, Charlotte Pellegrini, Keith Eckel, Richard Cotta, Gary Corbett, Buckey Jones, Don Whorton, John Malcolm, Mieke Doelman, and Norman Hanson for the amount of time every one of you put in.

Thank you very much. We will stand in recess for 1 hour.

[Recess.]

AFTERNOON SESSION

The CHAIRMAN. Somebody joked once earlier this morning, those of you who have been in my committee room know that I have a huge gavel. The head on it is very large and it probably weighs a good 15, 20 pounds. Harold Howrigan, who is here from Franklin County, Vermont, had a shop class in one of their schools make that magnificent gavel for me, and he gave that to me right after I became chairman. It is the largest gavel on Capitol Hill.

When we finally finished a committee conference at 4:30 in the morning on the last farm bill, having started at 7:00 the morning before, that was the gavel that rang down.

I would like to yield to Senator Feingold.

Senator FEINGOLD. Thank you, Mr. Chairman. I just want to start off the afternoon by saying how much I appreciated what we heard this morning. It was tremendously diverse. I have heard some things here that I have heard back home. I think it is terribly important that these issues are raised in a room like this where everybody is together.

Earlier today an emphasis was placed on the reality that we may lose some farms. I am extremely grateful, however, to those who indicated that we don't need to accept that as a reality and that there is a value in the family farm that goes beyond pure economics and pure numbers. I am very grateful to those who articulated that.

The word "profitability" came through all the presentations this morning. Profitability is something that every business in America feels is its right. Well, profitability should also be a part of dairy farming.

I heard loud and clear the messages about supply management alternatives. I am very eager to dive into this subject. I am a new Member of the Senate and may not know as much about the alternatives as the chairman and other Members, but the alternatives that are being talked about today are going to be a very key part of our work in the coming months and a very key reason for having this summit.

So I thank the chairman again and look forward to the opportunity to learn more this afternoon. I plan not to just listen but to try to turn this discussion into action through the good work of this committee and its chairman.

Thank you.

The CHAIRMAN. Thank you very much, Russ.

This morning we tried to talk as much as we could about the current situation, partly putting it into the historic context, where dairy farms have gone. Now I would like to talk about the policy options and then open it up to those who want to ask questions.

Incidentally, I know it is haying season, I know a number of you are dairy farmers in the area. A couple have told me that they were going to have to leave. Those who don't get a chance to speak, I would hope that you would not hesitate to sit down when you get home, based on what you have heard or what you would like to say, or even those who have spoken and want to add more, just write it out and send it to me. Don't worry about it being fancy, I mean, write it on the back of anything you have at home and just send it to me so it can be part of the record. This is one where I can very honestly say I will read every one of those I get.

I wonder if we could just introduce everybody, starting with Ron Morrissette, just give your name and where you are from and just go around here, and then we will do the panel discussion.

Mr. MORRISSETTE. I am Ron Morrissette and I am a dairy farmer from Randolph, Vermont.

Mr. GIACOMINI. Bob Giacomini, dairy farmer from California.

Mr. MCSPARRAN. Bob McSparran, dairy farmer from Pennsylvania.

Mr. HUBER. I am Stewart Huber. I am a dairy farmer from Wisconsin and also President of the Farmers Union Milk Marketing Cooperative.

Mr. BECKENDORF. I am Charles Beckendorf from Tomball, Texas and on the board of AMPI.

Mr. RUTHERFORD. Clyde Rutherford, dairy farmer from New York, President of Dairylea, Inc., and representing national milk producers today.

Ms. DANIELSON. Nancy Danielson, and I am tempted to say dairy farmer's kid. I work for the National Farmers Union out of Washington, DC.

The CHAIRMAN. Let us see. We will go to Mr. Conerly.

Mr. CONERLY. Steve Conerly with Flav–O–Rich, Inc., a processing cooperative wholly owned by Dairymen, Inc., in the Southeast. I live in Louisville, Kentucky.

Mr. ROSEN. I am Dennis Rosen. I farm in partnership with my wife, Debbie, in northwestern Wisconsin, close to the Eau Claire area, and I am also president of the Wisconsin Farmers Union.

Ms. VAN DYK. Deborah Van Dyk with Schreiber Foods in Green Bay, Wisconsin.

Mr. HAUCK. I am Dana Hauck, a cattle rancher from Central Kansas representing the National Cattlemens Association, and I also serve on the executive committee of the U.S. Meat Export Federation.

The CHAIRMAN. Thank you very much.

One part of the regulatory scheme that has received a lot of attention is the Federal milk marketing orders. We probably have the largest percentage of the American people that could actually understand milk marketing orders within this room. If an asteroid were suddenly to hit this room, there may not be enough people left in the country to fully understand it.

Some of them have changed based on hearings we had earlier, and some want to see more changes. Dr. Larry Hamm is the Chair of the Department of Agricultural Economics in Michigan.

Dr. Hamm, why don't you talk a little bit about the issues involved with the market order reform?

STATEMENT OF LARRY G. HAMM, PH.D., CHAIR, DEPARTMENT OF AGRICULTURAL ECONOMICS, MICHIGAN STATE UNIVERSITY, EAST LANSING, MI

Mr. HAMM. Thank you, Senator Leahy, for the kind introduction.

Secretary Espy and leaders of the dairy industry, it is a pleasure to be here this morning and I thank you for the invitation to provide a few comments on the Federal Milk Marketing Order System.

I was trying to figure out why I got asked by our two Senators. I am convinced that the boundary between the Northeast and the upper Midwest with respect to orders is somewhere between Detroit and Grand Rapids, and on some of these issues I believe it comes right through East Lansing.

But with respect to the orders, if one combines the milk marketing under the Federal milk marketing orders with those marketed under the California orders, you have approximately 355 million pounds of milk a day that are directly regulated through order mechanisms. Those 355 million pounds are delivered to over 2,000 plants. They are bottled, processed, manufactured into thousands of individual products and distributed to hundreds of thousands of retail and institutional outlets.

The fact that such a highly perishable product in volumes such as this are processed, distributed, and sold daily is stark testimony to how well the marketing order system works in dealing with the details of everyday milk distribution.

Well, if the orders work so well, why are there so many calls for milk marketing order reform? I say the calls for milk marketing reform are simply part of the territory that goes with the order system. In the simplest sense, a milk marketing order is a legal instrument issued to regulate, at some minimum level, pricing transactions between producers and buyers of Grade A milk in a specific geographic area.

More specifically, milk marketing orders grant the police power of the society to the industry to direct and sometimes constrain the actions of individual milk producers, producing, processors, and marketing firms. Those firms often stand to gain individual profits had it not been for the rule of the orders which are interested in the composite performance of the milk delivery system and wanting that performance to be consistent with some broader set of performance goals.

So given the application of this police power that restricts the actions of individual firms or groups of firms, it is no wonder that orders are controversial and their operation and details are always under question.

Calls for reform in milk marketing orders in a simplistic sense come from two basic purposes. There is a group of calls for market order reform that are really calls for order elimination. There is another set of calls for reforms in the orders that will, in fact, increase the dynamic efficiency goals of Federal orders in ways that are consistent with the public interest.

It will be clear from my comments today that my discussion on milk marketing order reforms puts me in this latter camp, one who believes that orders do, in fact, lead to a more dynamically efficient milk marketing system, and therefore my comments should be taken within that context.

I believe there are three basic forces putting stress on the order system and causing demands for milk marketing reform.

The first market force driving calls for milk order reform is market price instability. As was aptly stated this morning, the instability being experienced by market prices in the order is not a direct consequence of the performance of the orders but is because of the underlying support program no longer providing stability in the U.S. milk marketing system.

The current price instability is extremely disruptive to handlers' pricing practices and can lead to aberrant market order behaviors such as was seen in the Upper Midwest and Chicago orders in April and May where massive depooling of milk supplies took place.

The second major force driving calls for market order reform involves a whole set of issues surrounding the significant increase in high-volume manufacturing milk products in the Federal order system. Federal orders were conceived as mechanisms to provide adequate supply and orderly marketing of fluid-grade milk for fluid consumption. Manufacturing in Federal orders is a necessary con-

dition for orderly marketing in that it provides mechanisms for balancing supply and demand variations within a market.

Increasingly, however, Federal milk marketing orders have Grade A milk dedicated to manufacturing of cheese. The cheese plants and the cheese markets have two characteristics which make them problematic in Federal orders. First is that many modern cheese plants do not provide a fluid marketing balancing function, and second, the value in the marketplace of cheese is sufficient to bind raw milk supplies to cheese plants in such a way that those suppliers are not available for servicing fluid milk marketing needs.

A third driving force that is affecting calls for reform in the orders is the fact that the Federal Milk Marketing Order System, I would argue, is no longer spatially or economically separated from California's milk marketing system. The two systems are becoming linked in many respects, as West Coast production provides true surplus product quantities. These affect the national price for manufactured products, including cheese. The operation of the California milk marketing system directly impacts the entire pricing structure of the Federal order system.

In my opinion, these three forces are so fundamental that successful operation of an orderly U.S. milk marketing system requires that milk marketing order reforms take place not just in the Federal Milk Marketing Order System but in the context of State order systems also.

With those comments on an analytical side, in discussing some of these issues with some of my dairy farmer clientele in Michigan, they said, well, why don't you take an advocacy role, because everybody will know that you as a professor have no income tied to any of the rules of the operation of the orders. Therefore, why don't you suggest what you see as possible ways of addressing milk marketing order reform. So, I will do that.

First, the basic forces that we have talked about here and their implications are not readily handled by the individual order amendment and hearing process for individual orders. National hearings and/or coordinated actions across all orders, such as the third Class III(a) recommended decision, seem to be the only way that some of these issues can be addressed.

Second, I think progress has been made. The recent Class III(a) recommended decision and California's very recent Class I commodity reference pricing decision are starting the process of moving the order systems with both the Federal system and the California system closer with respect to harmony within operation. The correcting mechanism seems to be moving in the proper direction.

Third, to have an orderly or a meaningful order system, the rewards from the operation of the system should be directly linked to those who take the responsibilities. Simply, I would advocate that the order should pay for only those who play. If I personally had a stake, I would like to see some major consolidation of orders, some binding performance requirements in the operation of orders, and provisions for interorder revenue pooling.

Fourth, and finally, the time has come to seriously consider decoupling the fluid milk marketing system from the gyrations of short-term component values generated from the manufacturing

milk markets. As the U.S. dairy industry irrevocably is cast in international markets, this decoupling becomes even more critical. It may be time to reestablish the order system as a fluid marketing system.

Specific suggestions that should be considered include perhaps eliminating the cheese market farm milk price as the basic mover price in the order system. Basic price mover could reflect a true surplus price for milk that does not have the higher value use as in cheese.

Second, is it time to isolate cheese from milk supplies in the orders? Two approaches could be used. Either cheese-milk could be depooled or it could be classified as a higher-value use product and differentially priced.

In closing, the recent changes and order amendment activities have been positive and useful in addressing some of the fundamental driving forces calling for reform in the orders. However, milk marketing order reform has a long way to go. I would hope that the entire set of stakeholders with vested interests in having a dynamically efficient and fair milk marketing order system will reach consensus on the need for some basic reforms. A strong consensus for reform will be necessary to overcome the considerable inertia of individual market area vested interests and the formidable set of order components.

I hope these will provide some useful thoughts for discussion and later debate.

Again, thank you, Senator Leahy and Secretary Espy, for the opportunity to present these views.

The CHAIRMAN. Thank you, Mr. Hamm. I appreciate it. And I appreciate the time you spent here. [Applause.]

Our next presenter will be Fred Douma, who is a dairy farmer from Ontario, California. He is the son of a farm laborer. He and his brother entered dairying, I think back in the mid-1960s, wasn't it, Fred? They now own a herd that milks 1800 head, and he is no stranger to hearings before my committee.

Go ahead.

STATEMENT OF FRED A. DOUMA, DAIRYMAN, ONTARIO, CA

Mr. DOUMA. Thank you, Chairman Leahy, Secretary Espy, for this opportunity.

I appreciate the opportunity to participate in this National Dairy Summit on this panel. I would note that the views presented in this testimony are my own views and not necessarily those of the Milk Producers Council or any other organization for which I am generally associated.

I will confine my remarks to the several major areas of dairy policy, dairy price support programs, supply management, international trade, Federal milk marketing orders, and standards of identity, with the ideas of going to a free-market system or moving towards a free-market system using the tools that we have used in the past and what can be used in the future.

In the dairy price support program, I have always believed that the Federal dairy policy should be market oriented. The dairy price support program, when tied to appropriate market signals, has

largely fulfilled its primary objectives of assuring an adequate supply of milk and to act as a safety net to farmers.

Attempting to balance supply and demand for milk and dairy products, however, requires that dairy policy be flexible and responsive when market forces dictate adjustments in the price support mechanism. That flexibility has been lacking in the past when price supports were established above market-clearing levels, leading to the implementation of various supply management programs which yielded mixed results, at best.

The current purchase program can serve as the base for future dairy policy. With appropriate pricing mechanisms and minimal Government interference, the industry will more accurately allocate resources to meet market demand. High price supports of the late-1970s sent inappropriate signals to both producers and processors and resulted in huge Government outlays and high costs to the industry. Neither were sustainable and required numerous legislative struggles over the 1980s to correct.

The current policy has set the industry on the right track. Government outlays are sharply reduced, and with the exception of milk fat, supply and demand for milk and dairy products are in relative balance. More importantly, milk prices, while more volatile, have improved and farmers are in a better position to make more profits. The current situation proving this point as a current state of dairy farming, in my opinion, is moderately healthy. The dairy industry has also become more efficient and is poised to be a high-volume, low-cost producer of milk and dairy products to serve both domestic and international markets.

The key is to ensure that the components of the price support program contain market-responsive pricing mechanisms and do not inhibit the availability and use of evolving milk production and/or processing technologies. This includes the adoption of BSt or any other technology that can help producers maintain their edge over the competition. Stopping these technologies for socio-economic or other reasons simply aids and abets foreign producers at our expense.

In the area of supply management, the dairy industry has made numerous attempts to reduce dairy product surpluses with supply management programs, including the 1983 milk diversion program, the 1985 dairy termination program, and refundable assessments. All of them have serious deficiencies and have yielded mixed results.

That view was confirmed in the USDA milk inventory management report mandated by Congress in the Food Agriculture Conservation and Trade Act of 1990. In its June 1991 report, it found that each of the inventory management programs analyzed had a number of shortcomings, and noted that in that context the current milk support program measures up well.

I adamantly oppose any form of Government-imposed production control which utilizes production quotas by either direct Government action or with the bestowing of Government policing powers upon industry. This type of action locks in the production capability of even the least-efficient producer at the expense of the more efficient and aggressive producer. The result will be an industry which is very inefficient, and Canada and the EC are prime examples.

[Booing from audience.]

Voluntary supply management programs are less onerous by comparison to production quotas but also have serious deficiencies. The milk diversion and whole-herd buyout programs were successful in helping the Government to lower the cost of the dairy program from an annual $2 billion cost to the current $150 million cost. However, if the industry can develop self discipline at the cooperative level, there should be no need to ever again utilize even voluntary supply management programs.

The one thing that industry can and should do through their cooperative entities is to learn to influence a level production of members to the commercial demand of that milk and its various products available to that cooperative. No proprietary plant will purchase or accept a supply of milk from its supply sources which exceeds the plant product demands. Cooperatives can and must develop that same discipline to effectively encourage its members to achieve production patterns that more closely match product consumption.

Too often in the past, as well as the present, our cooperatives have requested Government intervention into controlling dairy farmers' milk production levels or requesting Government policing authority for industry instead of developing ways to balance their own supply/demand needs. Yes, the most successful marketer of milk and milk products in this type of system of self discipline will be the least restrictive of its members' milk volume. This type of individual cooperative balancing will create competition between cooperatives, which is sorely lacking in our current environment. Competition creates efficient marketing, which will expand available markets.

I also oppose the attempts by the National Milk Producers Federation to obtain the policing powers of Government for industry to tax producers, issue production controls, and market dairy products both here and abroad. Self discipline within industry and competition among and between cooperatives is a far better method of achieving a supply/demand balance while at the same time creating the most efficient dairy industry possible.

The dairy industry cannot expect to receive continued public support for funding the price support program, purchasing dairy products for domestic and international food programs, and provide funding to promote dairy products if we insist that an industry-run board have an ability to constrain production and set prices in an OPEC-type system.

Finally, the continued use of producer assessments is nothing more than a quota and/or a super levy that imposes huge costs on inefficient operations which, in effect, must subsidize those who decrease milk production to qualify for refunds. Such assessments are literally a tax on efficiency. Assessments should be gradually phased out, and alternatively, the Secretary of Agriculture should have greater discretion in the adjustment of product values. The Secretary has the available resources to measure the market impact of each product at various price levels. Legislated product value adjustments for short-term budget considerations may have larger budget implications in the long run if any commensurate

product price increase will result in decreases in market demand of that product.

On international trade, in 1982, then Secretary of Agriculture Jack Block convened a national dairy symposium to grapple with the ill-fated dairy policy provision of the 1981 farm bill. At that time, Secretary Block stated that the dairy industry will ultimately be in a position to be a player in the international markets.

Slightly more than 10 years later, we are seeing that his statement was indeed prophetic. With the reduction in price supports and the expanded use of the dairy export incentive program, the U.S. dairy industry is well positioned to not only compete in world markets but to be a dominant player.

A successful North American Free Trade Agreement will ultimately make Mexico our largest export outlet for dairy products. With the immediate elimination of Mexican import license and phase-out of tariffs on dairy products, U.S. commercial exports of fluid milk, cheese, nonfat dry milk, yogurt, and ice cream are anticipated to expand significantly over the 10-year transition period of the agreement. While Mexico has reciprocal market access for its dairy products in the U.S., Mexican exports of dairy products will be fairly limited due to the small size of its industry and its large deficit in dairy products.

Likewise, the successful Uruguay round of GATT negotiations will afford similar export opportunities for the U.S. dairy products in European, Middle East, and Asian markets, which have continued to utilize DEIP and other export subsidy programs in order to encourage an expeditious accord in the GATT negotiations.

The keys to competing in these markets are price, quality, reliability as a supplier, and providing what the international consumer wants. I believe that the U.S. is well positioned to compete for many of these markets. Federal dairy policy should continue to include Federal export development and assistance programs, but with a successful GATT and NAFTA, the emphasis should shift from export subsidization to market development and encouragement of value-added exports.

In sum, future dairy policy must not only focus on the domestic market but also the increased role of foreign markets enhancing the future profitability of the U.S. dairy industry.

And Federal orders, the milk marketing orders, I believe, provide a necessary function of balancing the very perishable nature of milk with the ability to achieve a fair market price for the various uses of milk in an equitable manner.

So long as the price mover of the order prices is based on free market activities, then the order prices will be established at reasonable and fair levels.

In general, I continue to support the recommendation of the National Commission on Dairy Policy. The commission felt that a major improvement in administrative process of orders was needed. It was this frustration that led to the legislatively-mandated increases in Class I differentials in the 1985 farm bill. Class I differentials and market order boundaries should be in constant review with necessary changes made based upon transportation costs, milk availability in a region, alternative supplies, and other changing technologies.

Finally, the Department should continue to entertain the consolidation of marketing orders where economic efficiencies will result, adopt changes such as reconstituted milk to encourage more economical flow of dairy products, and standards of identity, that industry needs more ways to produce products that are better tasting and more nutritious. One way is for the Federal Government to adopt more updated standards of identity on fluid milk, such as those already adopted in California, and the higher-quality dairy products have been well received by my State's consumers.

The CHAIRMAN. Thank you very much, Mr. Douma.

You have mentioned in your presentation the dairy export incentive program. Our next presenter, Mike Donovan, general manager of Eastern Milk Producers in Syracuse, was part of a delegation sent by U.S. cooperatives to Russia earlier this year to make a humanitarian aid donation.

As the Secretary knows, when we wrote the last foreign aid bill I put in a section which involved substantial dairy products as part of our food aid to the former Soviet Union, and I should note here that the Secretary has been very, very helpful in that. We have had more people go over to Russia finding potential markets but also finding needs, and we have been able to ship a great deal of dairy products over there. In fact, I will be there the end of next week, and that is one of the issues I am going to be talking about.

So Mike, if you want to go ahead, please.

STATEMENT OF MICHAEL H. DONOVAN, GENERAL MANAGER, EASTERN MILK PRODUCERS, SYRACUSE, NY

Mr. DONOVAN. Thank you, Mr. Chairman.

Good afternoon, Mr. Secretary, Mr. Chairman, and dairy industry colleagues. I appreciate the opportunity to briefly address the role commercial dairy exports can play in supporting the future financial well-being of dairy farmers.

The decade of the 1980s provided a harsh wake-up call for U.S. farmers as the Reagan administration emphasized market prices over support prices. Many dairy farmers were driven out of business, and those remaining were forced to substantially improve efficiencies and reduce production costs. After extremely low prices in the early 1990s, the financial picture began to improve, thanks largely to an increase in dairy exports.

I believe that most of us would agree that the prices paid to dairy farmers must improve to guarantee a balanced, healthy dairy industry. The question is how. Should we initiate mandatory production controls to force up prices or should we continue to allow the marketplace to establish dairy farm prices?

Eastern Milk Producers Cooperative believes that the marketplace should set prices. It is for this reason Eastern Milk Producers joined with the vast majority of the Nation's cooperatives in support of National Milk Producers' self-help program. Developing export markets for U.S. dairy products is a key element in the self-help program.

While dairy policy and farm prices over the past 12 years have taken their toll on the production side of our industry, it has also helped to set the stage for a successful U.S. dairy entry into the expanding world dairy markets. American dairy farmers ranked

second among world producers, with an average milk production per cow of 14,868 pounds in 1991. Furthermore, in terms of cost per unit of milk produced, the U.S. dairy farmer ranks lower than all but a handful of countries with pasture-based dairy industries.

Our dairy farmers are ideally positioned to compete in world markets which contain minimal export subsidies envisioned within the original context of the North American Free Trade Agreement and the General Agreement on Tariffs and Trade. Let me emphasize, this is only true so long as any GATT agreement assures a level playing field for all of the world's producers to compete on.

I would like to take a moment to acknowledge and thank the Senate Agriculture Committee and the U.S. Department of Agriculture for initiatives and programs which are already in place and are essential in our current and future export efforts. Chief among those is the Dairy Export Incentive Program, DEIP, created in 1985.

It was crucial in 1992 in assisting our industry to clear over 343 million pounds of manufactured dairy products in the world markets and strengthen our domestic farm price by an estimated 55 cents per hundredweight. This added $800 million to U.S. dairy farm income and reduced our dairy trade imbalance from a negative $530 million in 1990 to only $48 million deficit in 1992. The continued aggressive use of this program and its expansion to cover additional countries, notably those in the Pacific Rim and in Southeast Asia, is essential until the time comes as subsidies are no longer a determinant in dairy export marketing.

USDA dairy export credit guarantees are also a key element in facilitating dairy exports to Algeria, Russia, and other former Soviet Union Republics until sufficient private credit arrangements are available.

The USDA Market Promotion Program and other assistance provided by the Foreign Agricultural Service have been and will continue to be invaluable to the National Dairy Board and others in our industry as they strive to promote and sell value-added U.S. dairy products to Mexico, Japan, and other key markets.

Finally, USDA's continued willingness to utilize the Commodity Credit Corporation stocks to provide humanitarian assistance and modernization opportunities for the Republics of the former Soviet Union is extremely beneficial. This support can provide crucial technical assistance to those republics in the production and processing of milk and dairy products.

This assistance can stabilize their dairy industry, provide for much needed dairy food supplies, and develop long-term market opportunities for the U.S. industry. The very successful Land O'Lakes initiative in the Tula region of Russia is a prime example of what can be accomplished by our cooperatives and proprietary companies working with and through the Department of Agriculture.

Recently, I had an opportunity to lead a delegation of industry leaders to Moscow to deliver 20 tons of dairy products. While in Moscow, we met with AKKOR, that is the Association of Farmers and Agricultural Cooperatives of Russia, and various regional and national Government agencies. I would like to acknowledge the Chairman's assistance in arranging these meetings through the Center for Democracy. At each of these meetings we were told that

they appreciated the humanitarian donations but what they needed and wanted most was our technical assistance and advice.

Our farm credit cooperatives through ACDI and the Land O'Lakes project are providing the specific tools most needed, according to the AKKOR officials. We need to build on these projects as we strive to develop markets within the republics of the former Soviet Union.

Allow me to take a moment to emphasize why dairy export enhancement is critical to U.S. dairy farmers. The U.S. domestic commercial market for milk and dairy products is a mature market, with expectations for only moderate growth in demand as our population growth slows. At the same time, productivity increases continue to push up milk production even as cow numbers drop, creating potential surpluses and resulting in lower prices for dairy farmers.

One answer to this problem is mandatory supply management, which is a subject which will be presented later this afternoon. Our cooperative and I am opposed to manipulating price by controlling supplies since it adversely affects the farmers' competitive position in an open global market.

That argument aside, let us investigate the current level of export activities and the amount required for our industry to become a dependable long-term supplier in the world dairy market. That market, unlike our market, is rapidly expanding in many areas. The market has a high level of demand for nonfat dry milk, which is a key price determining commodity in our country's well-being, as well as the desire for fat, which still is produced in surplus here.

I believe the dairy industry needs to concentrate on the development of long-term markets in foreign countries and become a reliable, consistent supplier of dairy products.

As I previously mentioned, our export activities can be categorized into three distinct areas. The first involves the bulk commodities, butter, powder, and cheese, under DEIP. Sales of dairy commodities under DEIP have started to increase dramatically over the past 3 years. In 1991, DEIP sales amounted to 87 million pounds of product. In 1992, to 343 million pounds, and in 1993, nearly 110 million pounds have been sold to several of the 96 countries that participate in the program. The dairy industry has an opportunity to greatly expand DEIP sales in the future.

Secondly, the importance of effectively utilizing the Federal foreign donation program cannot be overstated. Based on my recent experience in Russia, there is both an increasing need and an increased emphasis on humanitarian assistance around the world. We need to be creative and flexible in providing food aid.

The modernization program which is authorized under Section 416(b) of the Federal donations program is an excellent example of the potential to provide food products and the capacity to raise capital at local levels for use in various agricultural projects.

In 1992, 416(b) programs utilized 287 million pounds of nonfat dry milk and butter combined. It is possible that this program will exceed 190 million pounds of butter donated in 1992 this year. In addition, the Food for Progress and P.L. 480 programs provide many other options for humanitarian assistance.

Finally, I would like to mention the significance of the expanding sales of value-added dairy products such as ice cream, yogurt, lactose, and whey powder. In 1992, the sale of value-added products totaled more than $237 million in exports and accounted for almost 430 million pounds of product. We need to continue to expand sales of these products, given the success achieved in the last few years.

To successfully expand current dairy export volume, our industry needs to develop a U.S. dairy export federation encompassing all the elements of our industry. There has been a committee working since 1990 to develop a draft proposal of such a federation, and copies of that are available either through the National Dairy Promotion and Research Board or through the National Milk Producers Federation. While I am not endorsing that draft policy today, it does include many elements which are necessary for successful expansion of U.S. dairy exports.

A review of the success of the U.S. Meat Export Federation can provide many clues as to what needs to be done. For starters, we have to go where the sales are going to be made.

The National Dairy Board's export activities in Japan and Mexico are a good starting point, but we have to go much further. We need to have offices in the major markets and representatives available on a regular basis in smaller markets. We need to standardize the packaging and weight of bulk commodities to the world market standards and develop retail packaging that meets the norms and regulatory requirements of the individual markets.

We should consider establishing a U.S.-owned export company which is not under the control and ownership of those who may be major competitors, i.e., the Irish Dairy Board.

I would go on to say that nearly all of today's export incentive bonuses go to exporters owned by foreign interests. We must use the existing Federal programs to initiate contacts and open markets for dairy exports.

Today, the vast majority of our export sales are in bulk commodities, nonfat dry milk, butter, whey, and whey components. Tomorrow, with proper planning and organization, we can add yogurt, ice cream, specialty cheese, and other value-added items.

In the Northeast, the members of the Council of Northeast Farmer Cooperatives are actively involved in establishing an export organization. I know that other areas of the country are organizing similar efforts. As an industry, we have to make this a national priority.

Mr. Secretary, Mr. Chairman, we need your continuing encouragement and support as we move this effort ahead. The Dairy Export Incentive Program is a crucial element for export policy until fair, open market trade is assured. Export credit guarantees are essential.

The Market Promotion Program, while politically unpopular, if effectively used can provide tremendous support in early stages.

[The prepared statement of Mr. Donovan follows:]

PREPARED STATEMENT OF MICHAEL H. DONOVAN, GENERAL MANAGER, EASTERN MILK PRODUCERS, SYRACUSE, NY

Good afternoon. Mr. Secretary, Mr. Chairman and dairy industry colleagues, I appreciate the opportunity to briefly address the role commercial exports of dairy products can play in supporting the future financial well-being of dairy farmers.

The decade of the eighties provided a harsh wake up call for U.S. farmers as the Reagan administration emphasized market prices over support prices. Many dairy farmers were driven out of business and those remaining were forced to substantially improve efficiencies and reduce production costs. After extremely low prices in 1990, the financial picture began to improve—thanks in large part to increased dairy exports. I believe that most of us in this room would agree that the prices paid to dairy farmers must improve to guarantee a balanced, healthy dairy industry. The major question is how? Should we initiate mandatory production controls to force up prices, or should we continue to allow the marketplace to establish dairy prices?

Eastern Milk Producers Cooperative believes that the marketplace should set prices. It is for this reason Eastern Milk Producers Cooperative joined the vast majority of the Nation's cooperatives in supporting the National Milk Producers Cooperative-developed "self-help" program. Developing export markets for U.S. dairy products is a key element of the self-help program.

While dairy policy and farm prices over the past 12 years have taken their toll on the production side of our industry, it has also set the stage for a successful U.S. dairy entry into an expanding world dairy market. American dairy farmers ranked second among the world's producers with an average milk production per cow of 14,868 pounds in 1991. Furthermore, in terms of cost per unit of milk produced the U.S. dairy farmer ranks lower than all but a handful of countries with pasture-based dairy industries. Our dairy farmers are ideally positioned to compete in a world market containing minimal export subsidies envisioned within the original content of the North American Free Trade Agreement and General Agreement on Tariff and Trade. Let me emphasize that this is only true so long as any GATT agreement assures a level playing field for all the world's producers to compete on.

I would like to take a moment to acknowledge and thank the Senate Agriculture Committee and the U.S. Department of Agriculture for the initiatives and programs which are already in place and are essential to our current and future export efforts. Chief among this is the Dairy Export Incentive Program (DEIP) created in 1985. DEIP was crucial in 1992 in assisting our industry to clear over 343M pounds of manufactured dairy products into world markets and strengthen our domestic dairy farm prices by an estimated 55¢/cwt. This added $800 million to U.S. dairy farm income and reduced our dairy trade imbalance from –$530 million in 1990 to only –$48 million in 1992. The continued aggressive use of this program and its expansion to cover additional countries, notably those in the Pacific Rim and Southeast Asia, is essential until such time as subsidies are no longer a determinant in dairy export marketing. USDA dairy export credit guarantees are also a key element in facilitating dairy exports to Algeria, Russia, and other former Soviet Union Republics until sufficient private credit arrangements are available.

The USDA Market Promotion Program and other assistance provided by the Foreign Agricultural Service have been, and will be invaluable to the National Dairy Board and others in our industry as they strive to promote and sell "value added" U.S. dairy products in Mexico, Japan and other key markets.

Finally, USDA's continuing willingness to utilize Commodity Credit Corporation stocks to provide humanitarian assistance and monetization opportunities for the Republics of the former Soviet Union is extremely beneficial. This support can provide critical technical assistance to these Republics in the production and processing of milk and dairy products.

This assistance can stabilize their dairy industry, provide much-needed dairy food supplies, and develop potential long-term market opportunities for the U.S. dairy industry. The very successful Land O'Lakes initiative in the Tula region of Russia is a prime example of what can be accomplished by our cooperatives and proprietary companies working with and through the USDA.

Recently, I had the opportunity to lead a delegation of dairy industry leaders to Moscow to deliver 20 tons of dairy products donated by NMPF cooperatives. These products went to the most needy in the Moscow area.

While in Moscow we met with AKKOR (Association of Farmers and Agricultural Cooperatives of Russia) and various regional and national government agencies. I would like to acknowledge Senator Leahy's assistance in arranging these meetings through The Center for Democracy. At each of these meetings we were told that

they appreciated the humanitarian donations, but what they needed and wanted most was our technical assistance and advice.

Our Farm Credit Cooperatives through ACDI and the Land O' Lakes project are providing the specific tools most needed according to AKKOR officials. We need to build on these projects as we strive to develop markets within the Republics of the former Soviet Union.

Allow me to take a moment to emphasize why dairy export enhancement is so critical to U.S. dairy farmers. The U.S. domestic commercial market for milk and dairy products is a mature market with expectations for only moderate growth in demand as our population growth slows. At the same time, productivity increases continue to push up milk production, even as cow numbers drop, creating potential surpluses and resulting in lower prices to dairy farmers.

One answer to this problem is mandatory supply management, a subject to be addressed by another presenter this afternoon. My Cooperative and personal view is opposed to manipulating price by controlling supplies since it adversely affects our farmers' competitive position in an open global market.

But that argument aside, let's investigate the current level of export activities and the amount required for our industry to become a dependable long-term supplier to the world dairy market. That market, unlike our market is rapidly expanding in many areas. That market has a high level of demand for nonfat dry milk which is a key price-determining commodity in our country as well as milk fat, which is still produced in surplus here. I believe the dairy industry needs to concentrate on the development of long-term markets in foreign countries and to become a reliable and consistent supplier of dairy products.

As I previously mentioned, our export activities can be categorized into three distinct areas. The first involves the sales of bulk dairy commodities (butter, powder and cheese) under DEIP. Sales of dairy commodities under DEIP have started to increase dramatically over the past 3 years. In 1991 DEIP sales to foreign countries amounted to 87M pounds of product. This increased in 1992 to 343M pounds and so far in 1993 almost 110M pounds of dairy products have been sold to several of the 96 countries eligible under this program. The dairy industry has the opportunity to greatly expand DEIP sales in the future.

Secondly, the importance of effectively utilizing the Federal foreign donation programs cannot be overstated. Based on my recent experience in Russia there will be both a continuing need and an increased emphasis on humanitarian assistance around the world. We will need to be creative and flexible in providing food aid.

The monetization program which is authorized under Section 416(b) of the foreign donations programs is an excellent example of the potential to provide food products and the capability to raise capital at the local level for use in various agricultural projects.

In 1992 the 416(b) program utilized 278.5 million pounds of nonfat dry milk powder and butter combined. It is possible that this program will exceed the 189.8 million pounds of butter donated in 1992 this year. In addition the Food for Progress and PL 480 programs provide many other options for humanitarian assistance.

And finally I would like to mention the significance of expanding sales of "value added" dairy products such as ice cream, yogurt, lactose and whey powder. In 1992 the sales of value-added dairy products totaled more than $237 million dollars in export sales accounting for about 430M pounds of product. We need to continue to expand sales of these products given the success achieved in the past few years.

To successfully expand the current dairy export volume, we need to develop a U.S. Dairy Export Federation encompassing all elements of our industry. A committee comprised of exporters, cooperatives, branded processors, industry trade associations and dairy farmers has been meeting periodically since 1990, and has developed a draft proposal for an export federation. Copies of this draft proposal can be secured from either the National Dairy Promotion and Research Board or National Milk Producers Federation. While I am not endorsing this draft proposal today, it does include many of the elements necessary to successfully expand U.S. dairy exports.

A review of the success of the U.S. Meat Export Federation can provide many clues as to what needs to be done. For starters, we have to be where the sales are going to be made.

The National Dairy Board's export activities in Japan and Mexico are a good starting point, but we have to go much further. We need to have offices in the major markets and representatives available on a regular basis in smaller markets. We need to standardize the packaging and weights of bulk commodities to world market standards, and develop retail packaging which meets the norms and regulatory requirements of individual markets. We should consider establishing U.S.-owned exporting companies that are not under the control and ownership of those who may be major competitors for export sales (i.e., Irish Dairy Board).

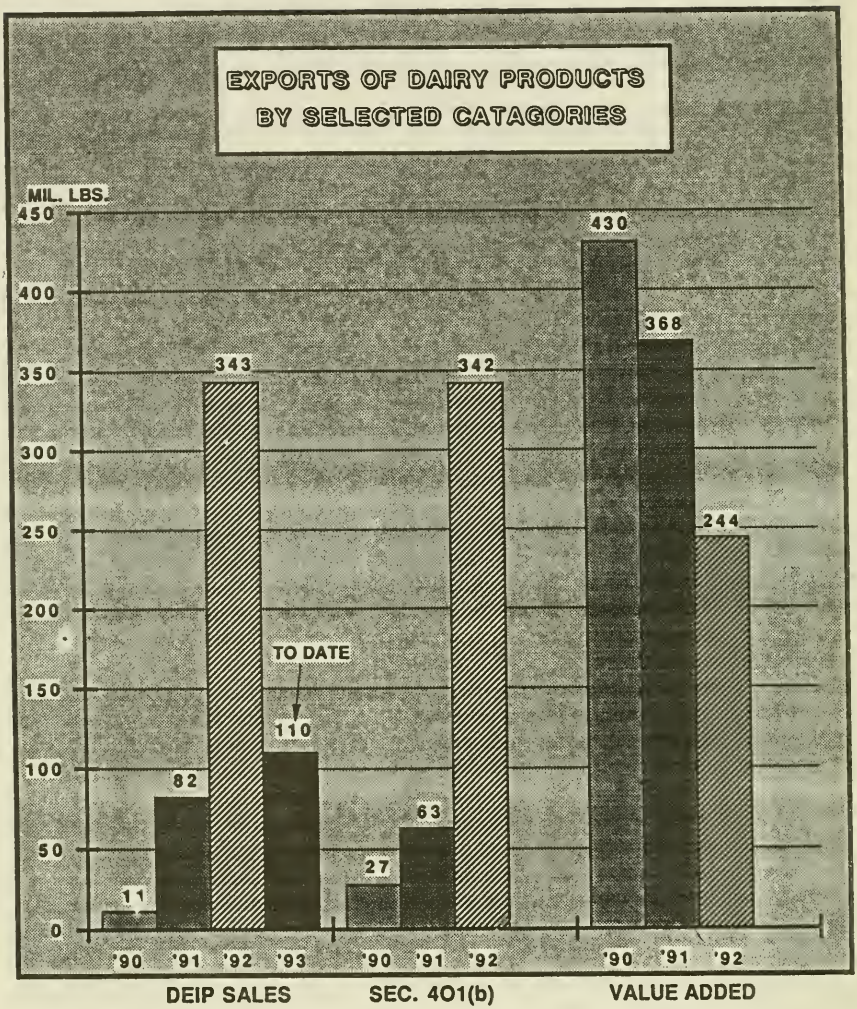
Today, nearly all of the Dairy Export Incentive bonuses go to exporters owned by foreign interests. We must use existing Federal programs to initiate contacts and open markets to U.S. dairy exports. Our recent Moscow trip is an example of this last point. We used a small humanitarian food donation to open doors to discuss large governmental donations of surplus butter. Having gained access we can now turn to discussions of monetization projects to assist the Russians in developing their dairy industry, which hopefully will lead to industry sales of nonsubsidized, value-added dairy products. A long journey, perhaps, but like most journeys it has to start with a single step.

Today the vast majority of our export sales are in bulk commodities, nonfat dry milk powder, butter, whey and whey components. Tomorrow with proper planning, organization, and support we can add yogurt, ice cream specialty cheese and other high value items.

In the Northeast the member cooperatives of the Council of Northeast Farmer Cooperatives (CNFC) are actively working to establish an export organization. I know that other areas of our country are organizing for similar efforts. As an industry we need to make this a national priority.

Mr. Secretary, Mr. Chairman, we need your continuing encouragement and support as we move this effort ahead. The Dairy Export Incentive Program is a critical element for export policy until fair, open trade opportunities are assured. Export credit guarantees are essential. The Market Promotion Program, while politically unpopular, if effectively used, can provide tremendous support in the early stages. Humanitarian donations of surplus U.S. dairy stock can open a lot of doors. Your inclusion of $66 million of surplus butter in the Russian aid package was very much appreciated by those of us working to open markets.

Our industry has moved away from its dependence on Government support and is developing "self help" plans which envision a close working relationship with you, Mr. Secretary. The available CCC facility and programs, FAS assistance, and your advice and input will be essential to our success in developing "self help" and export markets. Thank you for your time and kind attention.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The CHAIRMAN. Thank you.

I should note on the Market Promotion Program, there will be and should be some changes in that. It does not have to be used the way it has in the past, where too much of it has gone to some super-large corporations that would spend the money to promote their products anyway. It should be used for what it was initially intended for by the Congress, smaller agriculture entities that could not have been involved in market promotion otherwise. And believe me, that is the way it is going to be.

I thank you very much for your testimony.

Our next presenter is Nancy Danielson. Ms. Danielson and I have one thing in common. She grew up on a dairy farm. I don't want to suggest that is what we have in common; I did not. But she is a former district attorney, as I am, and I have always thought that it is a great thing for agricultural policy to be designed by district attorneys. Some in agriculture might not think that, but in our committee we do.

Ms. Danielson, please proceed.

And incidentally, the entire statement of each presenter will be placed in the record in its entirety. I would urge each person, in your time at bat, so to speak, to hit the most salient points of what it is you've come here to say. I suppose what I mean is, what do you really want the Secretary and I to remember the most, and Congressman Peterson and Senator Feingold. What do you want us to remember the most when we walk out of here?

Ms. Danielson.

STATEMENT OF NANCY DANIELSON, WASHINGTON REPRESENTATIVE, NATIONAL FARMERS UNION, WASHINGTON, DC

Ms. DANIELSON. Thank you, Mr. Chairman.

I have been given the high sign that I should be very careful to stick to my time limit, and so if there was one thing that I wanted you to remember most it would have to be producer income, and everything else we say has to be measured by that yardstick, producer income. [Applause.]

I am more than pleased to be here today. I am excited to be here today, and I am happy that our chairman would call a summit so we could get the dairy farmers of the Nation together and talk about dairy policy.

And I am very excited to have a Secretary of Agriculture that has been talking about farm income since he has had his tenure, and the fact that he would take his time to be here today is very important to us.

I am from National Farmers Union and I can tell you that the farmers in National Farmers Union do support two-tier supply management. But what I also need to tell you is that if we had the table big enough to get all the groups up here today that supported national two-tier supply management, the table would have to stretch around the room, and I am speaking today on behalf of all those dairy farmers that do support two-tier supply management. [Applause.]

You know, if you went to a small town in your district and if you went to, say, a car dealership, you would not expect to find 500

cars on that car lot, and that is because inventory management is the key to whether or not that car dealership will succeed. We feel the same way in agriculture. We need to have that inventory management.

We have three goals that we think the inventory management program should help us meet. Number one, we need to allow farmers to have sustainability. Number two, we need to provide consumers with a high-quality, stable supply of dairy products at an affordable price. And number three, we need the program to provide a mediator between individual producers and processors in a highly organized processing sector.

And while we have done well at providing the supply, we have failed at the sustainability test. And I can tell you, in my own home State of Wisconsin in the last 10 years, we have lost 27 percent of our dairy producers, and if I look down to my friends in Texas it is even worse. They have lost 50 percent. And all of the producers out there today could tell you how many they have lost in their States.

It is hard to agree on one program, but Hoard's Dairyman did a survey and they found out that 75 percent of the dairy farmers support supply management, and out of those 75 percent, 82 percent of those support a two-tier program, and that is the survey that was done in 1991. They have not done another survey since then, so that is the most recent information.

Well, if you have a two-tier supply management program, what needs to be part of that program? I have 10 basics that I will touch on very briefly.

Number one, the keystone of it has to be you have to have cost of production plus a reasonable profit. [Applause.]

And we might have different ways of measuring what that income could be. We think cost of production is a very fair way. There are many others in the audience, I know, that would tell you it should be parity. And whether it is parity, whether it is cost of production plus reasonable profit, that needs to be the cornerstone of our program, and we cannot have supply management without having the price there. That would be the death knell for us.

USDA tells us that our economic costs were $14.41 for 1991, so we need to have at least that along with a return for our farmers.

The second thing we need to do, and especially in a time of decreasing amounts of money available in the budget, we need to have targeting. We need to make sure that every farmer is allowed to be large enough to be sustainable, and we should not require the farmers who have few cows now to have to cut back if any cutbacks are required on a national level.

However, we do need to have a set production level and we do need to follow that level, and that probably will require some cutbacks.

Number three, we need to have a base, and we think it would work to freeze base at 1992 levels as a starting point so that you don't have a race for base. An alternative way of doing that would be to use Olympic averaging, in other words, taking the last 5 years, throwing out the high and the low, and we need to start there.

The program should be operated on a uniform national basis, and no new or return base would be allocated to producers whose existing base exceeded the production cap as determined by producers.

Number four, we need to have new farmer provisions. We don't want to do something that keeps new farmers from being able to get into the program, and we think this would work by having a portion of the base that would be unassigned and placed in a pool to be available for new producers first and then available for producers who wish to expand the production.

Number five, we need to have a strong incentive not to overproduce. The farm organizations out there might have different ways of measuring this, but it definitely has to be strong enough not to encourage overproduction.

I heard an earlier speaker mention today that the current assessments that we have are a supply management program in effect, and I have to tell you that we respectfully disagree with that assessment.

Number six, we have to have a mechanism for transfer of base. We don't think there should be restrictions upon transfers within a family, including the spouse, parents, siblings, children, grandchildren, but we do think there should be some restrictions. We think that base should be transferred with the sale of farm and that the number of farmers within a pooling area has to be sufficiently large to accommodate that base transfer.

Number seven, of course we have to have an adequate supply, and when we are determining what the adequate supply should be we need to include the domestic needs, the low-income needs, and the export needs, and we think that the Secretary should have some discretion to make adjustments during the year so that we don't have seasonal shortages.

Number eight, our program has to be long term, and any dairy farmer in the crowd can tell you that if there are 36 months between the time a cow is bred and that offspring is a producer in the herd, then a short-term program just doesn't work for us.

Number nine, we have to have farmer control, and it is particularly important that producers have a voice in determining how the cost of production is set.

We think it would also make sense to have a producer referendum on whether or not you should use supply management, and I wish that there might be some way to have an advisory referendum tacked on to this referendum that we are having in August, although certainly you couldn't have block voting if you had a producer referendum on that question.

The last thing we will measure a program by is that it has to be politically possible. It has to be something that we can sell to Members of Congress, dairy farmers, and other taxpayers, and it must allow farmers to obtain their income from the marketplace.

Very briefly, I would like to address a few concerns that we have heard with two-tier supply management. We have heard that it won't allow economies of scale. Well, I have to tell you right now a lot of farmers are not able to buy new machinery, they are not able to even buy health insurance, and how will these same farmers be able to meet the environmental concerns?

One of the farmers in the crowd could tell you that it will cost them $145,000 to meet the environmental standards that are coming up, and they can't do this when they are receiving less than cost of production.

We have been told that the export market is an answer to our problems, and I guess what I would like to remind you is that if we are only exporting 2 percent of our milk, why should we keep the price low for 98 percent of our milk? Instead, we have to—— [Applause.]

There are only three countries in the world that are able to produce for less than the cost of production or less than the world market price.

Low-income consumers, we want to help you. We think dairy farmers should help you and we think all other taxpayers should also help you, and we don't think it should be only the dairy farmers.

I need to finish, but I guess the last thing I would like to leave you with is what happens after today. Well, first of all, we know that we can't give Section 22 away and expect the supply management program to work, and so I would have to urge you to keep Section 22 when you are arguing trade.

In 1991, there were 81 proposals submitted and all of them were rejected by USDA, and we would like to say with the new Secretary of Agriculture, we would like you to go back and take a look at those 81 proposals. There was a lot of thought given to those, and we think those could provide answers.

The thing that is different today than was 2 years ago is, first of all, we have a Secretary of Agriculture who wants to talk about producer income. We think that is a big difference. Another thing that is different is that from Wisconsin, we have sent you our best and brightest to help you with the fight. We appreciate all the work you have done in the past on supply management and we need to urge you not to give up that fight.

And the very last thing I would like to tell you is that there are a lot of people out in the audience today that are willing to help you win that battle if you are willing to take up our position with Congress one more time. And if you look out there, I think you will see the signs of the States that they are from, and just know that all those States will be helping you get a supply management program in place.

[The prepared statement of Ms. Danielson follows:]

PREPARED STATEMENT OF NANCY DANIELSON, WASHINGTON REPRESENTATIVE OF THE NATIONAL FARMERS UNION, WASHINGTON, DC

Good afternoon. On behalf of the dairy farmers across the country, I wish to thank Senator Leahy for calling this summit. We are also very pleased that Secretary Espy made time in his busy schedule to participate in this summit.

I work as a Legislative Representative for National Farmers Union. The farmers in our organization have debated and passed policy calling for a two-tier supply management program, as have the farmers in many other national organizations. Today, I speak not for any one organization, but as an advocate of two-tier supply management.

Agriculture is sometimes used in economics classes as an example of perfect competition in the marketplace, i.e., no one farmer can go out and set the price for the product. However, those of us who depend on farm income find the marketplace far

from perfect. We realize we live in a political marketplace, in which bargaining power between producers and processors is not equal.

Our challenge is to develop and implement a market system which will meet three goals: 1) allow farmers sustainability, 2) provide consumers a high quality, stable supply of dairy products at an affordable price, and 3) provide a mediator between individual producers and processors in a highly organized, highly concentrated processing sector.

Although our current system has achieved the second goal, it has failed the sustainability test. As a result, dairy farmers who are doing everything right are still going out of business every day. Wisconsin, the leading dairy production State, has lost 27 percent of dairy producers in the past 10 years, as numbers dropped from 44,500 down to 31,000.

It is never easy to achieve consensus on nationwide reform. Yet, a 1991 Hoard's Dairymen's poll found that 75 percent of dairy farmers favor supply management, and 82 percent of those support a two-tier program.

This presentation will focus on elements that must be present in a two-tier supply management program. I will also address concerns that have been raised in the past with regard to implementing a two-tier system.

Two-Tier Supply Management

Key components in supply management

There are 10 key components that must be addressed in developing a successful supply management program.

1. Cost of Production Plus Reasonable Profit

The centerpiece of any supply management program is price. Restricting production without providing for a profitable return would sound the death knell for farmers.

The tier-one price must be based on the cost of production plus a reasonable profit. The cost of production could be established by using the previous year's economic costs as determined by USDA. (This level was $14.41 for 1991.) Reasonable profit may be defined as 10 percent of the cost of production.

2. Targeting

Farmers must maintain the ability to produce enough milk to sustain the farm. A successful supply management program must be targeted to family-size producers by exempting a reasonable level of production from any production cutbacks that are required to keep supply and demand in line.

The increased milk price received from implementing the two-tier system should be shared equally among producers from all regions.

3. Production Base

Base should be frozen at 1992 levels, as a starting point. Producers could also have the option of using their average production from 1988–92, dropping the high and low year to establish base. Small producers should be exempted from cutbacks necessary to achieve a balance in supply and demand.

The program would be operated on a uniform national basis. No new or returned base would be allocated to producers whose existing base exceeded a production cap, to be determined by producers.

4. New Farmer Provisions

A percentage of base should be unassigned and placed in a pool to be available as needed. Beginning family farm producers should receive a preference when new base is allocated.

A beginning farmer could be defined as a milk producer who is in the process of establishing a milk production operation and who has not assumed the full control and risk of such operation for longer than 5 years.

Other farmers could apply for base, as base became available. No new or returned base should be allocated to nonfarm corporations and nonfarm absentee investors.

5. Incentive not to Overproduce

The incentive not to overproduce must be strong. The second tier price must be low enough to strongly discourage overproduction. However, there should be a margin so that farmers are not required to hit base production to the exact pound. This margin could be achieved by allowing producers who produce slightly under their base to maintain their base.

6. Transfer of Base

Provision must be made so that farmers do not encounter difficulty due to base transfer when they wish to retire and transfer the farm to the next generation or sell to another family farmer. Base should be transferred with the sale of the farm. The number of farmers within a pooling area should be sufficiently large to accommodate base transfer.

Transfer of base between family members should not be restricted, with family members to include spouse, parents, siblings, children, and grandchildren.

7. Adequate Supply

The system must never short the market. The Secretary should retain discretion to adjust the price to encourage production during the months which generally have lower production. Base should be adjusted annually to include an adequate supply of milk to meet the domestic needs, low-income needs, and export needs.

Adequate emergency reserves of dairy products should also be maintained to support necessary long-term and emergency food relief programs, and these reserves should not be considered to be surplus production.

8. Long-Term Supply Management

The program should provide for long-term supply management. The 36-month period between the time a cow is bred and the offspring enters the herd as a milk producer, makes short-term measures ineffective and argues against using a two-tier program only in times of large surpluses.

9. Farmer Control is Critical

There must be provisions to allow producers to participate in program control. It is particularly important that producers have a voice in determining how the cost of production is set.

A producer referendum should be held to allow farmers to vote on whether a two-tier system should be implemented. This could be done in conjunction with the upcoming dairy promotion referendum, although bloc voting could not be allowed in any event.

10. Politically Possible

The program must be saleable to Members of Congress, dairy farmers, and other taxpayers. It should allow farmers to obtain their income from the marketplace and not the support price. It must provide for the needs of low-income consumers without reducing farm income.

The goal of this program is to establish a long-term supply management system which is controlled by farmers. The program is based upon the principles of fair market prices, targeting to family-sized farms, and regional equity.

ADDRESSING TWO-TIER CONCERNS

Skeptics of supply management sometimes argue that production controls do not allow producers to achieve maximum economies of scale. However, the current cheap food policy is pushing farmers into working long hours, at a price which includes an extremely low hourly rate. Few workers in other businesses would be willing to accept those working conditions.

Most people would agree that future legislation will place additional financial requirements on farmers, such as the Clean Water legislation. Many farmers have cut costs by no longer purchasing new equipment. Some farmers have been forced to forego health insurance. Producers who are making these choices are in no condition to make the large capital outlays which will be required to meet increasing environmental concerns, however worthy those regulations may be.

A free market that does not allow the producer to obtain an adequate price is not so free. In fact, many would argue the current system is not free market, but instead, tightly controlled by those who are not farmers.

Other critics contend that increasing the price makes U.S. farmers unable to compete in the export market. However, only 2 percent of U.S. production is exported. Should producers settle for a low price on the 98 percent of milk which is sold domestically just for the privilege of dumping the remaining 2 percent on the world market?

The export argument also overlooks Canada's situation. Canada has a supply management program, and yet continues to be a dairy exporter.

U.S. policy should recognize that the United States is not the world's lowest cost producer. Therefore, we may just have to accept the fact that our exports will need to be subsidized to compete on the world market. We should also recognize that

most of the world, with the exception of New Zealand, cannot produce at world market prices.

A third concern raised in discussing the two-tier program is whether dairy products will still be available for low-income consumers. Yet, look beyond the nutrition programs to other programs that serve those in need. The Government provides legal services rather than requiring all lawyers to charge fees that every person can afford. The Government provides free medical care to the indigent, rather than require doctors to charge low fees to all patients. It is not reasonable to require farmers to be the only segment of society to subsidize low-income consumers of food. Instead, each of us should share the responsibility of ensuring adequate funding for nutrition programs.

Any supply management program will be scrutinized by beef producers, to see whether the proposal will cause a glut on the beef market. This legitimate concern can be addressed by ensuring that cutbacks, if necessary, are administered gradually, rather than en masse, as occurred with the whole herd buy-out.

Doing nothing with the dairy program presents a concern in and of itself, since dairy cows are marketed with no rhyme or reason, as dairy producers go out of business through gradual strangulation. Similarly, unfettered growth means more dairy cows that eventually end up on the beef market.

CONCLUSION

If freedom to produce as much as we want, whenever we want, however we want, was the only issue, we would not be here today presenting a proposal for supply management. No one likes to accept restrictions. However, farmers are not free under the present system.

In 1991, there were 81 dairy proposals submitted to USDA. Many of them contained two-tier supply management proposals developed by the groups represented in this audience. All were rejected by the Department. We would like the new administration to take a second look at those ideas. A fresh philosophy may make all the difference.

A successful supply management program will benefit others in addition to farmers. Bankers will find farm loans a better risk. Implement dealers will find farmers better customers. Schools will benefit from the stronger tax base.

Our purpose today is not to complain. We recognize that just as farmers have been forced to become more and more efficient, so too, must Government. Our purpose therefore, is to offer our recommendations and strong support for passing agriculture policy that will achieve a high quality food supply, at a fair price, with a low cost to taxpayers.

We appreciate your work, Chairman Leahy, and the Senate agriculture staff's efforts in 1991. We also appreciate the fact that Secretary Espy voted in favor of supply management while serving as a member of the House Agriculture Committee. Today we ask you to renew your efforts in 1993.

Thank you for holding the dairy summit. We look forward to working with Congress and the Department to achieve our mutual goals.

The CHAIRMAN. Thank you. [Applause.]

And I don't mean to be cutting you off. Each of the presenters has unfortunately run overtime, and one of the most important things for us will be to have the time at the end for audience participation.

I am going to be stepping out for a minute, but I turn to Clyde Rutherford, the President of Dairylea Cooperative in Syracuse, New York. Again, Clyde is no stranger to dairy hearings, with either my committee or the House Agriculture Committee or at the national level.

I yield to you.

STATEMENT OF CLYDE RUTHERFORD, DAIRY FARMER, PRESIDENT, DAIRYLEA COOPERATIVE, SYRACUSE, NY

Mr. RUTHERFORD. Thank you.

I appreciate this opportunity to explain the self-help dairy stabilization program developed by the National Milk Producers Federation.

Dairy farmers from the Federation member cooperatives have been developing the self-help concept over the past 2 years. That evolving discussion has now matured into a specific detailed legislative proposal which has received overwhelming support from the Federation's members.

Briefly, National Milk's self-help dairy stabilization program shifts some of the responsibility for funding and conducting national dairy price stabilization from taxpayers to milk producers. In return, dairy producers get a greater voice in national dairy stabilization activity that affects their prices and greater assurance against buildups of price-depressing milk surpluses.

It is important to enact a self-help dairy program at this time because dairy farmers no longer can depend exclusively on the current Dairy Price Support Program as the sole mechanism for stabilizing the national milk supply. Federal budgetary support for this program is steadily eroding and its cost is increasingly being shifted to producers. In a few more years, producers could be required to pay for the entire program. Thus, the Government will have less incentive to monitor the effectiveness of the dairy program.

The critical importance of the national Dairy Market Stabilization Program is best summed up in the familiar cliche that 1 percent of the Nation's milk supply prices the other 99 percent. Cliche or not, the real truth behind it is apparent from considering recent dairy market statistics that clearly show a great difference in terms of price between a year with 5 billion pounds of net removals and a year with 7 billion pounds of net removals.

Specifically, an additional 2 billion pounds of milk equivalent, of CCC net removals, which constitutes about 1⅓ percent of the Nation's milk supply, will cause U.S. milk prices to drop by about $1.10 per hundredweight, cutting about $1.65 billion from the annual gross income of the U.S. dairy farmers and taking about a 30-percent bite out of U.S. average net cash income from the dairy farm. That is a 30-percent bite out of the entire income from which a typical dairy farmer must pay or compensate for all capital improvements, replacements, operating capital, land, and other nonland costs.

The National Milk self-help dairy stabilization program would simply give dairy farmers a greater voice over the critical 2 billion pounds of removals, the 2 billion pounds that determine whether most of them earn a profit or suffer a loss.

To understand the type of erosion in Government support that the dairy farmers are facing, you only need to look back at the past few years. Throughout the 1980s, the Federal support to the dairy industry was eroded from a high of $13.10 to the present $10.10 per hundredweight. However, with the support level now so far below market price levels, further price support reduction has lost its effectiveness as a budget control mechanism.

Accordingly, the pressure has shifted to increasing dairy farmer assessments as a means of further reducing Government costs of the dairy program. Under the current budget assessment, dairy farmers will pay almost 60 percent of the total amount that the Office of Management and Budget projects the dairy support program will cost.

Based on this year's budget reconciliation debates, this assessment and the portion of the dairy program costs that it finances will almost certainly be increased in future budget reconciliation processes. Some in Government are currently predicting that the Federal budget deficit situation is so serious that the annual reconciliation process can be expected in the foreseeable future.

The self-help program alternative proposed by the members of the National Milk Producers Federation would achieve its purpose quite simply. It would establish a producer-funded dairy stabilization board that would be authorized to remove surplus dairy products from commercial markets in a timely manner to ensure stabilization of milk prices and improvement of dairy farm income. This would be supplemented by stand-by authority to manage excess marketings when market intervention alone is not adequate to provide the needed price stabilization. All proposed actions by this board would require the approval of the Secretary of Agriculture.

Dairy farmers would benefit under the plan by gaining an organization dedicated to achieving dairy market and price stabilization that would, one, be responsive to their needs, and two, augment the present dairy program which contains no safeguards against the type of market price collapses the industry suffered during the winter and spring of 1991.

The proposed dairy stabilization board would be authorized to intervene in dairy product markets in an active and timely manner to remove from domestic commercial market surplus price-depressing dairy products in the projected range of the 5 to 7 billion pounds milk equivalent. This would be exported or disposed of in noncompeting market outlets. This intervention would take place when prices are weak or dropping but before they reach current support levels. Price improvement of at least five times the cost per hundredweight of this program to dairy farmers should be expected as a return.

What would the program cost dairy farmers? First, the program would return the current budget assessment to the original level of 10 cents per hundredweight and would add an additional deduction up to 10 cents per hundredweight, depending on the level of projected net removals to the fund that the board projects of product removal activities. If net removals are projected below 5 billion pounds milk equivalent, the total deduction would be the 10 cents and the board would not engage in any removals that year.

If net removals are projected between 5 and 7 billion pounds, the board would be funded at a level sufficient to handle the disposition of projected net removals up to 2 billion pounds above the threshold of 5 billion pounds milk equivalent. This would be done through an additional deduction not to exceed the second 10 cents.

The total cost to dairy producers, therefore, would be between 10 and 20 cents per hundredweight. This 20 cents per hundredweight maximum cost would be collected through deductions from the Federal and State order pools rather than individual milk checks from all producers except those not pooled under orders.

All deductions would be refundable to individual producers who voluntarily limited their milk marketings during the year. To keep it budget neutral, there would be a recapture provision to compensate for the refunds.

If net removals were projected over 7 billion, the industry would be in substantial surplus and milk prices would be sharply depressed and a main imperative would be to end the surplus condition and restore the industry to a balance as quickly as possible, and there is a program that would accomplish that, including refunds to the dairy farmers of the monies collected.

Included in the National Milk's proposal is a program that also would bring some stability to the orders and those areas that do not have milk during certain seasons and the areas that have a surplus, and requesting that that portion also be included in the program.

Dairy farmers who are members of National Milk strongly believe that the self-help approach is the route our industry should take. We look forward to working with you, Mr. Chairman and Mr. Secretary, to achieve it. We pledge to work with you to develop dairy policy that will support our dairy industry. We need to have a level playing field, but we need to know from you how wide the fence posts are in the lane that we are driving down.

Thank you.

The CHAIRMAN. Thank you very much.

One of the basic propositions that Mr. Douma has put forth, if I am understanding it correctly, and he can correct me if I am wrong, is that our Federal dairy price support policies should serve as a safety net for dairy farmers and industry but nothing more than that and we should rely on the marketplace as much as possible.

Mr. Huber, you are a dairy farmer and co-op president from Wisconsin, Senator Feingold's State. Tell me, what do you think about that?

PANEL TWO DISCUSSION

Mr. HUBER. First of all, Senator, I wanted to thank you and the Secretary and the other Members of Congress who are here to hear our concerns.

I want to tell you that the price situation that we face as dairy farmers and as our members do in the Midwest face is real, and I think that has been adequately addressed here today.

I do have some general comments about each of the speakers that have presented here, and as I understand, we are to respond to those presentations.

First of all, I hope that we are here today and are not going to be acting like generals who are preparing for the last war. You know, the fact is that what is happening is that GATT and NAFTA agreements are coming down, and while the U.S. dairy industry is unique among most farm commodities, we are basically a domestic industry. That means that our production and consumption are basically domestic in character, and there is a reason for that.

We have had Section 22 protections, as Dr. Novakovic indicated this morning, to protect our other two programs, both price support and Federal orders. And we need those if those programs are going to remain in place. But Section 22 is about to be traded away under the current negotiated GATT and NAFTA agreements, and

so it would suggest that we are going to be operating in a whole different frame of opportunities as we look to the future.

There has been much talk about the fact that we are the lowest cost producer or one of the lowest cost producers in the world. Well, the fact is, of course, that we fall someplace right in the middle, that producer milk prices have been averaging about $12.25 in the United States, but under us are Australia, Hungary, Czechoslovakia, the world market price, Poland, New Zealand, and Argentina with its Pampas and its expansion of the dairy industry, which they refer to as being a pasture-based kind of economy. It is going to grow and grow dramatically in the world in the future. And their price is $4.94 a hundredweight.

Now that is the lowest common denominator that is going to affect the dairy policy development in this country, and I submit that that is going to be a real challenge as we look to the future.

Now if we eliminate Section 22, if Article 11 goes down in the GATT agreements, then how do we structure a program that will protect farmers' incomes? I think that is something that we have to address and not be concerned so much about what has happened in the past as what is going to happen in the future.

I do share Ms. Danielson's suggestion, Mr. Chairman, that the 1990 farm bill did include a provision that the Secretary of Agriculture should review supply inventory control options, and that initiative was done by the last Secretary of Agriculture and the last Department. I think they found that they recommended none. I would suggest that the Secretary review them again, especially as they apply to the GATT and NAFTA agreement.

Let me suggest a couple of other things that we should address. I speak specifically to Dr. Hamm's recommendations. I must respectfully disagree with two of his recommendations. He applauded the Class III(a) decision. I think again that that discriminates against producers, particularly of manufactured product, and is counterproductive.

I also would suggest that decoupling the fluid industry from the manufacturing industry is counterproductive. That goes down the road toward low, low manufacturing prices in this country and will materially affect our part of the country adversely.

I think always the devil is in the details when we look at these kinds of proposals. Let me respond to Mr. Rutherford's self-help proposal. I think earlier this morning it was described as a proposal that was going to be a type of supply management, and I trust that you would agree, Clyde, that that is, in effect, what is going on here. And I am not necessarily opposed to that, but it does not deviate primarily from our current situation in terms of the price volatility.

Right now, what I understand would happen under this proposal, and I don't understand it as well as I should, but as I understand it, you would enhance the DEIP and market innovation by dollars that come out of producers' pockets and also have an indirect effect on supply management. And the supply management would become increasingly more complex as the problem accelerated.

The first-tier assessment would not be so bad—10 cents. The second tier would be 20 cents. The third tier, $3.00, possibly, assess-

ments, whatever, but they would be substantially higher than the first and second tiers that he described.

Well, the problem with this approach, if we use that as a supply management approach, I worry, quite frankly, that when the second tier went into effect, let us assume that you ended up with the possibility that the bright economists in the world would be predicting that in the succeeding year that we would be over the 7 billion pounds, wouldn't there be a race for base in that second year so that you would avoid the penalty in the third year?

And I wish you would respond to that, if you would.

But then I will conclude my remarks, if I might, Senator. I will be done in just a couple of minutes, okay? I think that——

The CHAIRMAN. Incidentally, let me ask you a question. Are you familiar with the legislation I put in the emergency dairy relief bill back in 1991?

Mr. HUBER. I am, and I——

The CHAIRMAN. Do you like it?

Mr. HUBER. I think that it should become a model, Senator Leahy's——

The CHAIRMAN. I didn't want to cut you off before you had a chance to say that. [Laughter.]

Mr. HUBER. I want to tell you that we think that Senator Leahy's emergency bill in 1991 should be the model for increasing farmer income and certainly removing the great conflict in the Federal order system that has developed, because nobody loses and everybody wins, and that was a marvelous piece of legislation. It ought to be the model for the future, Senator. I appreciate that.

I want to just mention a couple of other things in passing. I am concerned about the U.S. market becoming a magnet under NAFTA and GATT, or particularly under GATT, for cheap imports coming into our country and taking away our market. I think that we have to assess those imports on the same milk equivalent basis as dairy farmers are if we are going to end up with an assessment on domestic producers. I think the same should be true of milk promotion, which it is not.

I think that we have to ensure that the standard of quality those imports have to meet is our domestic quality, which they do not. [Applause.]

What I am suggesting to the Senator and to the Secretary is that authority for dairy inspection should be moved from FDA to USDA, because it has the authority to do it and FDA does not.

The CHAIRMAN. Thank you.

What about reactions on this side of the table to what you have heard so far, either from Mr. Huber or from the other presenters? Would anybody like to take a shot at that?

Ms. VAN DYK. Sure, I will. Why not? I am Deborah Van Dyk with Schreiber Foods, and I just had a couple of comments and I will keep them very brief and will submit some written comments.

But I would like to thank you for the opportunity to talk with you today. I do have a couple of concerns about the self-help proposals. One of them relates to the board.

As we discuss the future of the dairy industry, I think it is important to note that part of our future lies overseas, and if that is the case, if we move to create a board that is, if you will, governed

by people who are very well intentioned but perhaps do not have the knowledge base for international trade necessary to make those correct decisions, I am concerned about the impact that that will have on us down the road. So I would like to make that comment.

I have another comment regarding disposal of surplus milk. One thought we had was that as we have surplus milk, one of the methods in which we might be able to get a higher dollar value for that would be to allow co-ops or companies to bid on the surplus milk and then create a value-added product that could then in turn be sold.

The other point that I wanted to make is that as this panel is supposed to be discussing the future, the future at Schreiber Foods is in new product development. If you look at consumption in America, I think it is worth noting that over half of the adults over 35 have stopped drinking fluid milk. We don't have as strong a market as we had before. We need to look at new ways to utilize this product and get very creative.

Thank you.

The CHAIRMAN. Thank you.

Ms. Van Dyk, is it safe to say you would not support supply management? You feel that price is the best way to manage supply?

Ms. VAN DYK. I believe that there is a combination of both that could be used, but I think the marketplace is really the best mechanism to control it.

The CHAIRMAN. And I am correct in saying that you strongly support the creation of both new marketing and new products using dairy, is that correct?

Ms. VAN DYK. Definitely. That is one of the things that Schreiber Foods is very well known for, new product development.

The CHAIRMAN. I have tried not to interject my own feelings in here on policies as we have gone along, but I must state that I feel very, very strongly that the dairy industry, like any industry, has to be constantly looking for new products and new ways of marketing them.

No matter how much you might like the 1951 Ford, we are not going to sell 1951 Fords today except at a collectors' gathering. I think we have to realize that you have to keep up with consumers' needs, demands, wants, and help to create them, if need be.

The dairy industry is no different than the wheat industry, soybean industry, fruit industry, citrus, or anything else. So I appreciate that.

Mr. Rosen, what about you, sir? Do you have a feeling on this?

Mr. ROSEN. Well, I would echo the concerns of a fellow dairy farmer about Bush and Reagan's negotiating away Section 22. The Class III(a) differentials concern me because I think they will lead to lower producer prices.

When we come to some of the conclusions of market-oriented economics, I think all of us have had economic and political history that has adjusted or modified or changed the way and environment in which we live. And from this, I think all of us have developed our beliefs in what justice is in the marketplace.

The concern I have is that some define free market as a market free from Government intervention, but the concern I have is that

if not the Government, who proceeds as the referee in the development of policy that looks at and is concerned about we the people?

The market level and market orientation that Mr. Douma was talking about is interesting, but I think that it has to be at a level that assures me as a producer that I am going to have some economic activity from production agriculture, because after all, I am producing the raw material that goes into it.

And what I have seen in the 15 years that I have been a dairy producer is that last February I received the same price for my milk as I received in November of 1978, yet the price of cheese is——[Applause.]

Yet the price of cheese is almost double in the stores. I think the efficiency factor in the road in which we get there ought to be a two-way street, and the technology advancements in the processing area have come as well.

Yet when I see in a recent issue pointed out—and I am not trying to pick on my processor friends because I believe they deserve to have a profit in the marketplace, but I don't think it ought to come at the expense of the farmers that produce it.

But as I looked back, I saw in this one article that it showed about the same time I entered into production agriculture, had I purchased stock in ConAgra and invested the $300,000 that I invested in my farm, that asset would have a value of about $50 million today. I have an asset that is not worth $300,000, and I think it is because we have just squeezed all of the economic activity out of our rural society. [Applause.]

The CHAIRMAN. Were you aware that I had a study that I commissioned by the General Accounting Office a while back which confirmed what seemed to be the impression to me, as my wife and I would go shopping each week for our groceries, we would see the price of milk stay about the same in the grocery stores yet I was getting the reports as chairman of the Senate Agriculture Committee that the price of milk was going down, up, going down, up, and usually going down, but not affecting the price on the store shelves.

Has that been your experience, too, even though your price may go way down, do you find that if you are buying milk at the grocery store your price is about the same?

Mr. ROSEN. Milk is often used in the fluid areas in some stores as a loss leader, but in the cheese area, when my price went down by a third, in that same period of time it was reported in the paper that the handlers of that cheese received more profit on that 1 pound of cheese than I was paid for producing the milk that went into that cheese.

The CHAIRMAN. You saw a certain corollary there?

Mr. ROSEN. Yes.

The CHAIRMAN. Thank you very much. I thought you might. [Applause.]

Mr. Morrissette.

Mr. MORRISSETTE. Thank you, Senator.

There are a whole lot of things I would like to comment on but I am going to try to keep it fairly limited. I wanted to talk a little bit about Mr. Douma's comments about the free market system in relation to Canada. He stated that their system was inefficient.

Well, in Canada today their milk in the stores is at the same price when you use the dollars corrected for value as it is here in the U.S., and yet the Canadian farmer is receiving a good price for their milk. A 60-cow herd in Canada is able to support 2 families, and in the United States you can't even support 1 family on that. That is quite a difference.

I think it is pretty hard for a co-op that does processing to really represent the producers, because that is really a conflict of interest when they try to do that. [Applause.]

I think the thing that needs to come out of this today, though, is that we have to get back to realizing that the dairy farmers need to have a cost of production for their product. If they don't have enough money in their milk checks to meet their bills and give them a decent living, the dairy industry is going to be in serious trouble.

One of the reasons that many farmers are still on the farm today, and I hear this from many farmers, is that if they sell out, Uncle Sam is going to take a big share of that money that they have worked all their lives to build up, and it is their retirement fund, and they just don't feel that they can do that.

And another thing is if you are on the farm, at least you have a roof over your head and you have food on the table, but if you sell that farm you don't have any income any more and you are going to lose your home and you are going to be out there in the street, and that is the reason why a lot of people are still there, even though they are working for virtually nothing, and we need to change that. [Applause.]

The CHAIRMAN. Ron, let me ask you a question. You made the point, and you, like me, live only about an hour's drive from the Canadian border. You said that a 60-cow herd could support a couple of families in Canada. Now they have, of course, a different system of handling dairy, a different type of supply management, and so on.

But why are they losing dairy farms at the same rate we are? They have, the last several years, lost at the same rate that we have throughout the United States.

Mr. MORRISSETTE. Well, I would suggest to you from talks with the Canadians that what has happened is that small farms have consolidated into one big farm or bigger farm, not a real big farm because they don't have any huge farms like we have here. But the same number of families are living on that consolidated farm. In today's——

The CHAIRMAN. If I could just probe a little bit on that. We also show in some of our statistics that farms have consolidated. Is it at the same ratio? They still lose the same percentage of dairy farms we do, and I am trying to find out why. It is an entirely different system they have than we do. Why has this happened?

Mr. MORRISSETTE. Well, I would think there is one big difference. We may have the same number of families on our farms as they do, but they do not get a living wage like they do on the Canadian farms.

The CHAIRMAN. I see.

Mr. MORRISSETTE. And another thing I just want to get in here is that when the Canadian farmer reaches the age where he wants

to retire, he can do so in dignity because there is money enough in the system so that the younger generation can take over and he can retire on the money that is available from his farm.

The CHAIRMAN. He also has one other big difference. He doesn't worry about health care the way we do here, does he?

Mr. MORRISSETTE. That is right.

The CHAIRMAN. That is a major difference. [Applause.]

Let us hope that that is something that is going to change in this country.

Mr. MORRISSETTE. I sincerely hope so. It is a crying need.

The CHAIRMAN. You and I agree.

Mr. Giacomini, I wait until you get a glass of water in your hand and then I call on you. That is not fair, but please go ahead, sir. How would you react to this?

Mr. GIACOMINI. You did an excellent job calling my name out.

The CHAIRMAN. That is because I have——

Mr. GIACOMINI. You have had some experience in that once before.

The CHAIRMAN. I did it when you were before the committee, and also because my mother is first-generation Italian American. I can't mispronounce an Italian name more than once and get away with it.

Go ahead, sir.

Mr. GIACOMINI. I appreciate that.

A lot of the comments that I was going to make today, Senator, certainly have already been made and I am not going to be redundant, but I just want to, as many of the other panel members have already done, thank you very, very much for the opportunity, you and the Secretary, for giving us dairy people a little time with the people that are really putting together dairy policy in this country.

And I guess that is one of the questions that I would start out with. If we are changing dairy policy or looking at changing dairy policy, we should define our goals, what we are changing them for and where we are heading to.

It seems to us that much of the goals in the past have been strictly for a cheap food policy in this country, amen.

One of the things that my fellow dairymen in my area asked me to bring out at this conference was to make sure and let everybody know that we are very concerned about the family dairy farm just as much as the dairymen in Wisconsin, Minnesota, or New York are. There is a concept out there of the large corporate California dairy farm. Yes, there are corporations in California. Yes, there are large dairy farms in California, and I want to give you an example of a couple of them.

One of them is Fred Douma, who is right on the left of you and has already spoken. Sure, he milks a couple thousand cows in southern California.

I happen to milk, along with my brother, some 900 cows on two dairies. Along with my brother and myself, my father, my brother's two sons, my two nephews, my four daughters, my wife, and my cousin, who happens to be the foreman on my dairy and is back there running it right now today, that consists—along with 900 milk cows—that consists of our family farm, and we are very, very

proud of that. Along with that, there are about 14 other employees that those 900 dairy cows support.

But we are very concerned, if we are talking social issues in this country to go along with dairy policy, that we are included in that family farm concept, because our farm was started by my grandfather, who came over here in 1900 and started in Patalooma, California, with about 100 chickens and 8 dairy cows, and I am very proud to say that the third generation from there, now it is built up to where it is. Because of some of the hard times in the dairy industry, as people have said earlier today, that is why we have grown to where we are, so we could continue to support the families that we are doing.

So whatever policy we do put together, let us put it together so that we can continue the family farm concept.

One of the comments that Mr. Morrissette made concerned me a little bit, and that was something about the fact of the processor and the producer having a conflict of interest. Well, I don't want to say that you are right and I am wrong or I am right and you are wrong, but I want to tell you what happens in California.

Seventy-five to eighty, in fact, about 80 percent of the producers in California belong to co-ops. There are about five major co-ops that these 75 percent of producers belong to. We don't only look at the 24 checks in a year's period of time as to whether we are making a profit or not. We get two checks a month, as I am sure most all of the rest of you do, which is 24, but then we get one more at the end of the year, and sometimes that can make or break us, that 25th check, and that check is the profit from our co-op. That is our processing profit for the year.

We don't consider ourselves as just dairymen, we consider ourselves as dairymen that are taking our product to the marketplace, and I think that is maybe the one key element that is missing here today is that there doesn't seem to be a working relationship between the processor and the producer. Without that in California, we would be in big trouble, believe me.

In the future, I think we can only expect so much from Government, whether it is the present administration, the last administration, or whoever the administration is going to be 4 to 8 years from now. You cannot expect the Federal Government to continue to support the dairy program the way they have in the past. I think that is very, very evident.

So if we are going to make a decent living wage, we are going to have to go out in the marketplace ourselves, through our co-op, through a relationship with our processor, and stand up and be counted as a total dairy industry, not just as a producer.

I am not going to go on any further. I think most of the rest of this has been said. I thank you again and Mr. Secretary very, very much and appreciate the time that you have given us.

Thank you.

The CHAIRMAN. Thank you very much, Bob. [Applause.]

Steve Conerly, do you want to give an idea from over here? I thought you might.

Mr. CONERLY. I might do that.

Thank you again for the opportunity, as the rest have expressed, for being here today and being a part of this program.

The first item that I wanted to cover with regard to what was said has just been said, is that all segments of the industry must be healthy. That includes the farmer segment in terms of the producers themselves, the processors, distributors, the retail supermarket chain. It has to be looked at as a total industry. I do not believe you can break it into parts and be successful, because the dairy industry is not going to be any stronger than the weakest link we have, and that applies to all of us.

I do think looking at the Federal order and the price support program, as Dr. Hamm has discussed, is necessary, particularly with regard to the Federal order program, I think it has been a very good program. Without it we would not be where we are at today; we would be worse than we are today. I do believe very strongly in the Federal order program.

That does not mean some of the changes that have been indicated needn't be considered or implemented, very much so. The marketplace is changing. It is not the same as it was 20 years ago or 10 years ago or 2 years ago, and so we must change. We can't stay where we are. But the Federal order program is very essential, particularly from a fluid milk handler's standpoint.

The price support program is the underpinning of our total dairy policy, and I do not believe it should be given up lightly. That does not mean it shouldn't evolve, but I do not believe we need a revolution all in one fell swoop. We need to make calculated moves to improve the program and not just turn the apple cart upside down; rather, let's just rearrange the apples as we go down the road.

I think that whatever policy program we have in the future must be market driven. Whether or not that involves Government or doesn't involve Government, it must be market driven, because in the long run it will be market driven. Not even Government itself can override the power of the marketplace over the long term. I think that you will have to recognize that.

That does not mean that we do not need programs along the way to kind of keep the cart in the middle of the road and out of the ditches. That is not what I am saying. The marketplace is changing and we have to change with it.

As a matter of fact, if there is a criticism that we as an industry deserve, it is that we only look at the big changes rather than focus on some of the little ones that we can deal with along the way. We wait until it gets to the point we reach a crisis state and all of a sudden we do have to look at, or at least we think we have to look at turning the apple cart upside down. I think we have been guilty of not doing the smaller changes along the way that would not be so damaging for any of us to cope with.

We obviously need an adequate supply of milk, and I must say in the Southeast, even where we are at today, we do not have an adequate supply of milk 12 months out of the year. We have a shortage of milk during a part of the year. So, particularly from the Southeast handlers' standpoint, we don't need any program which is going to aggravate that shortage of milk available to the handlers and ultimately the consuming public in the Southeast.

I think the largest single thing that we need to deal with today is the short-term fluctuation that we have within the year, from the bottom of the trough in prices to the peak of the prices. I think

that that change, that wide fluctuation has an impact causing many segments of the industry to not focus on long-term solutions. You know, you have to live through the short term or you don't care a whole lot about what the long term is.

So I think the first step that we need to deal with, even to get at the long term, is to deal with the short-run fluctuations. Obviously, in the manufactured products markets there may be a way. As Dr. Hamm indicated, under the Federal order program maybe there needs to be some decoupling. That doesn't mean that you ought to ignore the relationships, but maybe in the manufactured products it is a longer period from that standpoint.

Thank you.

The CHAIRMAN. Thank you very much.

Mr. Hauck, you are a rancher and represent the National Cattlemens Association. I applaud your courage in coming here. [Laughter.]

This Secretary reminded me that you are a Pennsylvanian, and thus the courage. Please, let me hear your views from what you have heard here today.

Mr. HAUCK. Thank you, Mr. Chairman.

I guess it probably does take some courage, perhaps not as much as it would have taken a few years back. [Laughter.]

We certainly didn't come here today to be contentious. You know, I think I probably need to say to dairymen here that as a representative of the National Cattlemens Association, I am representing 230,000 producers that also would represent about 85 percent of all the beef cattle numbers in the United States. I think as dairy producers and as beef producers, we all need to realize that dairy beef accounts for about 25 percent of total beef production.

Therefore, we can be affected by various dairy programs. We are concerned about dairy policy, not because we have dairy policy per se on our books but we are concerned about policy that might adversely impact us by any Government program, whether it be dairy or grain programs.

I just wanted to say that we are all in this together. I am talking about some reciprocity here. We are concerned about your issues, and I think by the same token you should be concerned about what might happen to beef producers in our individual cattle operations.

I think that since we aren't involved in specific dairy policy I probably should say that a management of supply which might suddenly or adversely affect beef prices would be of concern to us as cattlemen, and of course, in general would have to be necessarily opposed to any artificial retention of dairy cows caused by a Government program which would lead to those cattle needing to be slaughtered later on or by any program which would cause sudden liquidation.

Mr. Secretary, on your part, I think that cattlemen would also like to have USDA do an impact study on any potential cattle numbers that might come about because of specific dairy programs.

I think also it would be safe to say that we favor market-oriented policy rather than supply management, not only in any specific dairy programs but in commodity programs in general.

I can't say this for dairy producers, but I know as a beef producer I would certainly be concerned about any two-tier management sys-

tem for grain which would adversely impact my cost of production as a beef producer. I don't know how a dairy producer would feel about that, but I think you have to look at that as a viable question. We are all in agriculture together and we all need to be successful together.

The CHAIRMAN. Thank you very much.

Mr. McSparran, you are here representing Atlantic Dairy. I understand your farm is in Southeastern Pennsylvania. How far from home are you?

Mr. MCSPARRAN. About 40 miles. I live in Lancaster County, and that is just across the river.

Senator, I am very glad to be here and visit with you and Secretary Espy. I would like to note that I read recently where the President has said he is going to make polygamy legal because it is going to take two women on every farm to keep the family farm going. [Laughter and applause.]

Or as one of my neighbors said one time, he understood the wife is supposed to make half a living and he wishes he had married two of them. [Laughter.]

I also would like to pay tribute to, in Pennsylvania and this marketing area that we are involved in, order four, we are very fortunate to have support from the Pennsylvania Milk Marketing Board. I see their chairman is here today. They have been a big factor in us getting some over-order pricing. I think this is one thing that we have to work for. We wouldn't be able to do it if we didn't have the strength of the cooperative membership behind us in this marketing area, and we are very thankful for it.

In that regard, I would like to speak to Mr. Morrissette's comment about the cooperative not being able to dually represent the membership. That is their job and that is what we pay them for, and if they aren't working for the member, then they shouldn't have a job. [Applause.]

Mr. MCSPARRAN. I have heard a couple of comments today about different programs, and Senator, I know that one of these is yours, and I hesitate to even mention it, but the way it was referred to was that everybody wins and nobody loses. That is pretty hard to do. I mean, that is really a good program.

Dr. Hamm talked about the changes needed in the milk marketing orders, and I will grant you I am not an expert when it comes to milk marketing orders. I am president of the cooperative. We have good economists. They work for us for our good, working through hearings for milk marketing order changes. Perhaps we do need to overhaul them completely, but as long as we have the hearing process and can correct the deficiencies, I think this is a pretty good way to go.

Mr. Chairman, the first comment you made this morning was we need stability, and I think that is the prime target that we need to talk about today. I am firmly in favor of market-driven prices, but when we have too much price volatility, we do have a safety net. But when that net is down so low that you have a chance of bouncing on the floor before you hit the bottom, we need more stability.

Now whether that can be achieved by various methods that we have heard about today, I don't know, but I am in full support of

the National Milk program which Clyde laid out. We do have an assessment now and we may as well have some control over that assessment and use it to our advantage.

Mike Donovan talked about the export. That is a very integral part of any program we have in National Milk, and we need that. We used to be almost entirely, I think, a domestic industry, and we were protected, and we had a high support price and it was our downfall. Now we are going to become more internationally recognized as a reliable supplier of good dairy products.

We saw the scale this morning that showed that New Zealand had less farmers leaving the dairy business than any other country, and they have no Government involvement. I am not familiar with New Zealand, but I am wondering if they have any other employment opportunities. We have lots of employment opportunities in this country.

So it may be that they aren't leaving the farm because—I know that happened in the New England area a couple of years ago when the economy went sour. At that time, there were a lot of farms being developed. And all at once, the development stopped and the farmers started staying on the farm. They didn't have anyplace else to go.

Ms. Danielson talked about the National Farmers Union program and two-tier pricing and costs of production plus a profit, and I think that is great, but I think everybody's cost of production is so different that it would be hard to come up with a cost of production that applied to everybody.

The CHAIRMAN. Let me interrupt you for a moment.

If I could ask Mr. Beckendorf, who is President of AMPI, would you favor a two-tier system, and if you did, would you make it mandatory or voluntary?

Mr. BECKENDORF. Well, Mr. Chairman and Mr. Secretary, thank you again from all of us for having this summit today.

Of course, AMPI did work for, oh, probably 12 years on a two-tier-type program and we were told time and again as we were up in Washington what the restraints were and the problems we were going to face with that as we looked at the budgetary restraints as they would affect the other parts of the budget.

You asked a while ago what one thing I would want to tell you that you should take home and that would be that we need some stability. Our industry is sick. We need to know what those prices are going to be. I would like to see us have a livable wage, but that stability needs to be there whether the prices are high or low to tell me whether I need to stay in or leave. We need that stability more than anything here.

I would like to see us gain that through some type of supply management program or concept, whether it be two-tier or the National Milk proposal. I think as people see this proposal and hear it out in the country and read it and we get the kinks worked out of it, I think we are going to see more and more support for this.

Any program that we do have I think needs to respond to the market changes rapidly and adjust rapidly to anything there is that does happen in the market.

And we need to be assured of that level playing field we heard about this morning. It is extremely difficult or impossible for those

of us out in the country to compete with those treasuries of the European Communities or the other foreign countries.

We talked this morning a little bit about the increased production that we have seen. Of course, AMPI represents producers in New Mexico, in which they have had the biggest increase in production of anybody in the country, increases of 20 to 25 percent that we have seen out there. And they have been a real burden on the cooperative, trying to handle that production.

And Mr. Secretary, I would ask that you certainly consider us on this Class III(a) hearing. It would be a help to us that are bearing that burden in the cooperative, those of us that are drawing 30 to 40 cents a hundredweight less to balance that market and furnish that program, those of us that do own those plants.

I want to touch on environmental issues, because it is a big concern in Texas. The Texas Water Commission probably stopped the growth in central and western Texas where we had the California and Arizona producers coming in, the big producers.

At the current time, you won't borrow money to build a facility until you have that permit from the Texas Water Commission, and you are looking at spending as much money, if not more, on your wastewater facility than you are on your milking facility or your milking parlor.

So one of the things I would like to suggest there is that more of the implementation and work with the farmer be done through the State water conservation boards and local districts to work with those farmers where they can get something done there and get the thing worked out.

Senator Feingold made a statement this morning about the DEIP sales. We have in AMPI sold quite a bit through the DEIP sales these last 2 years. Two weeks ago, we finished our first in-house brokered sale of 100,000 pounds of whole milk powder. Now that is not a big sale, but if anybody screwed up we didn't want it to be a big sale. So this is kind of a touch and go and feel as we go thing. We do have a person on our corporate staff to do that and to work with Mexico on those sales.

The last thing, I guess, that I would like for you all to remember, Mr. Chairman, as you go back and as we work on the budget reconciliation is please don't forget how much dairy has already given up in this whole process.

Thank you.

The CHAIRMAN. Thank you.

I want you to know the Senate Agriculture Committee met on reconciliation and provided our part of the reconciliation package late last week. I was very pleased that the committee went along with the chairman's mark on dairy, and we did okay.

We will take a 10-minute break, and it will be really a 10-minute break, and then for all of you who have been waiting patiently, we will open the floodgates.

[Recess.]

AUDIENCE PARTICIPATION

The CHAIRMAN. If we could come back to order, we will go now to the first person.

I would ask each person who comes forward to raise a question or to make a statement, to try to keep it brief because we will have to stop at a specific time to accommodate the schedules of those who have airplanes to catch. So each person, when you are asking a question or making a statement, keep in mind that there are people behind you. Whatever amount of time you use is less time they are going to use.

I would also like to make one other announcement, if we could have order, please. You have noticed that, unlike those of us in the Congress who feel free to express our statements on anything, whether we know the subject or not, the Secretary has been very circumspect about what he might say.

And so you understand the reason for this, the Secretary of Agriculture has considerable influence on our agricultural markets. Decisions he might make on anything from export enhancement proposals to various other administrative actions he takes can make a big, big difference.

I will give you one example. The former Secretary of Agriculture was going to meet with me on a Monday morning to discuss a couple people who were going to be up for confirmation. The word went out late Thursday afternoon that he was going to be meeting with me. Somehow the rumor spread that it involved soybeans. Because of that potential meeting between the two of us and a rumor that it might affect soybean prices, the soybean market changed during the course of the day until the two of us issued a joint statement that that meeting had nothing to do with soybeans. It changed over $800 million.

So if the Secretary does not appear ready to make statements on what he might do on commodities, whether it is dairy or some of the feed commodities that are involved, please understand that he is here to listen. He is not here to state policy because he does not want to suddenly have his assistants come in first thing in the morning and tell him that the commodity markets are going crazy.

Now what we are going to do, we have two people here with microphones, Chuck Riemenschneider and Mr. Row from Hoard's Dairyman. What I am going to do is first go to Chuck and then to Mr. Row. Then Representative Peterson had a constituent, too, who wanted to be heard, so I will do that. If we could start with Chuck Riemenschneider.

Incidentally, because we are keeping a record of this, if each person would state their name, and if it is a hard name to spell, spell that, and tell where you are from.

Mr. CLARK. Mr. Chairman, Mr. Secretary, I am Doug Clark from Franklin, Vermont.

I would like you to take back with you four important things. Number one, I am not willing to have my farm taken away from me.

Number two, I am not willing to give my farm away.

Number three, we must have a supply management system of some kind.

And number four, we have to have our cost of production plus a reasonable profit.

Thank you. [Applause.]

The CHAIRMAN. Thank you very much.

I might say that Mr. Clark has set an admirable record, one to be followed for brevity and clarity.

Mr. DIBBELL. Mr. Chairman, Mr. Secretary, thank you for the privilege of being here and having this get-together. I would like to address the overall destruction of rural American economy that we have been practicing for the last 12 years. I do not think we can continue on this much further, and I think there are some solutions and I don't think it has to be complicated. I would like to keep it simple.

Oh, incidentally, I am Ken Dibbell from South New Berlin, New York.

The rural economy is based upon agriculture. It has been on the decline drastically since we removed parity from the vocabulary back in 1980. I mean, we have reduced it from 80 percent to 75 percent and then we eliminated it from the agricultural vocabulary.

I am not looking for Government supports. The money needs to come from the marketplace to shore up the infrastructure of rural America. Agriculture, dairy, beef, grain is the foundation of this country, and it is full of cracks.

In New York, we have lost over 10,000 dairy producers since 1980. We have got to stop this.

One solution that I see is a simple supply management system. It is not even a supply management system. We don't have to call it that. Every existing dairy producer as of today gets paid cost of production on a reasonable basis—we know what those numbers are—for the first million or million-and-a-half pounds of milk. That is a level playing field.

We like to speak of the level playing field in this industry. If every producer, big and small, were allotted the same fixed base, a million-and-a-half pounds at cost of production, this would shore up the rural economy. It would allow young farmers to get into the business, take over from a retiring couple, and the funds would be there to pay the retirement for that couple and they could pay their commitments to conduct a profitable operation with some sacrifice.

But we do not need Federal farm administration financing in the agricultural sector any longer. We have lost a lot of money in that sector and we need to stop it. The money needs to come from the marketplace and it is there if properly managed, and a fixed base for every producer would do it.

The CHAIRMAN. Thank you. [Applause.]

Representative Peterson, you had a constituent who wanted to speak.

Mr. PETERSON. Yes, Mr. Row, if you could bring the microphone up.

And Mr. Chairman, if I could, my good friend, Congressman Gary Condit from California, who I work with on the House Agriculture Committee, he and I have been talking about dairy policy and working on this in the house. He has a statement that I would like to have submitted for the record, if I could.

The CHAIRMAN. We will include Congressman Condit's statement in the record.

Mr. PETERSON. Mr. Chairman, this is Norma Hanson who was on your panel this morning and she kind of got in the crossfire there and she has a couple points she would like to make.

The CHAIRMAN. I am sorry about that.

Mr. PETERSON. She is President of the Farmers Union Board in Minnesota and one of my great friends. She serves on my dairy task force in Minnesota.

Ms. HANSON. Well, thank you very much, gentlemen, at the head table.

Thank you so very, very much, Senator Leahy and Honorable Secretary of Agriculture Mike Espy. This is the second time I have been in your audience. The first time was in the National Farmers Union convention in Sioux Falls, South Dakota. It is also very pleasant to be with my Seventh District Congressman from Minnesota, Collin Peterson.

This is a historical event for me, as it is for many of us dairy farmers here today. And hopefully if we walk away from here with something that we can take back home to the rest of our dairy farmers in the State of Minnesota and the other States that are represented here today, which I understand are at least 18 States, we have accomplished something.

If we do not come away from here today with some kind of a unity in a form of a program that we want for dairy farmers, we are not going to be here much longer and we are not going to need the processors to process our product because there won't be anything.

We need a two-tier supply management program that will give us a cost of production plus a profit. We have been asking for this for years and have never been able to succeed.

In the 1985 farm bill, there was a carry-over in 1991. And hopefully in the farm bill that comes up in 1995 that we have a dairy policy in there that will keep all of us that want to be dairy farmers on the dairy farms.

A point that I would like to make, I have a young son who wants to take over our farm as part of the dairy entity. Can he afford to do so? Can we afford to give it to him? No. Tax issues are there that prohibit us from giving it to him.

I think we need a tax investment credit system that will help him also to update those facilities on that farm. Many of the farms in the State of Minnesota need to be updated. Some of those facilities are over 30 years old, and we have to get in tune with the times because of the environmental issues. The time that it takes to run a dairy farm, they have to become more modern. And yet, I think that we as dairy farmers have done the best job that we possibly can with the income and the price that we have received for our product over the many, many years.

The CHAIRMAN. Thank you very much. [Applause.]

I want to give people some general idea what the lights mean. When the red light pops on, please wrap up. I hate to do this because we could easily, with the tremendous talent that we have from around the country and from all the people who have talked here, we could easily go on for a week and not begin to cover the subject as thoroughly as I would like. Unfortunately, we do not have a week, and I want as many to be heard as possible.

Chuck, go ahead, sir.

Mr. SCHMIDT. Mr. Secretary and Senator Leahy and others, my name is Allen Schmidt and I am a dairy farmer from Hayes, Kan-

sas. I came along with a neighbor from Hayes. We made this trip because we are committed to doing what we can to help the dairy industry out, and I would like to make this statement.

In 1992, my local community around Hayes, Kansas lost eight dairy herds that total 475 milk cows. This may not seem like a large number to many, but the loss in local economics is significant. My county agent put this loss in economic terms as follows. An average cow produces 17,000 pounds of milk per year. With milk prices at 12 cents per pound, each cow contributes $2,040 annually to our local economy, for a total of $969,000. Since each agricultural dollar is circulated an average of seven times, our area has just experienced the equivalent of losing a $6.8 million industry.

Now these are dollars that are not being produced elsewhere in Kansas. They are dollars that are lost maybe forever from our community and from our State, and it is very significant.

We have established the critical situation of dairy farming in many parts of the Nation and the need for effective stabilizing action here today. I feel we have established the economic impact of losing dairies and production on the local rural economies and the need to take effective action now, and we have yet to count the social costs of these losses in our communities.

Mr. Secretary, we have heard and read your statements on the high priority on your agenda as a Secretary of Agriculture for rural economic revitalization. We welcome your vision for agriculture, your support for dairy farmers, and your capacity for leadership.

I submit, as we have heard here many times today, that we must take action now to increase and stabilize our prices at a reasonable level to meet our costs or we must be prepared to pay both the economic and the social costs for many years in rural America.

This conference cannot end in mere talk and more studies. It must lead to effective action and firm resolve to continue the efforts to save our rural economies. When legislative action is chosen, it must be analyzed to ensure that it would positively affect the current intolerable situation, hopefully supply management with the cost of production.

The current spiraling down of cheese prices which we heard about today makes timely action even more critical, and I hate to go back and talk to my wife about that report today of spiraling cheese prices.

Mr. Secretary, Senator Leahy, and others who have an impact on the legislative process, we do request your immediate support.

The CHAIRMAN. Thank you very much. [Applause.]

Ms. EAGEN. Senator and Mr. Secretary, we all appreciate being here today. I have two things I would like to have you go home with.

I am Alice Eagen, a dairy farmer from Northern New York, and I mean Northern. I am on the Quebec border. I am in partnership with my son and we have just over 200 registered holsteins with a rolling herd average of 23,600 twice a day.

Number one—I guess I have a little more than two things. Number one, I don't want any part of BGH. I don't know how to feed these cows good enough now. I just had a cow peak at 195 pounds on twice a day. Good Lord, if I were giving her BGH, what would

happen? I would lose her. The other thing is I don't think we know enough to feed them properly.

The other thing, I have had some very serious family economic problems that I would like to share with you. My brother lost our family farm in the 1980s. It was established in 1842. I represent the last of a lineage of 500 years of land owners. My maiden name is Tarbell. I am the last Tarbell on the land. This is not due to the fact that we don't love the land, it is due to the policies that have forced many of us off.

My daughter, a graduate of Cornell University, a genetics major, worked around the clock for 7 years hoping she could farm it. She lost everything she walked on there with.

What we forget is what we do to these people. We don't just bankrupt them financially, we break them emotionally and psychologically. And what it does to our communities, we must not forget.

For 5 cents or 10 cents a quart on milk, our Government policies have been willing to sacrifice 25 to 50 cents a quart in social policies. We are putting these people out. They don't have a skill that they can market right away. They are floundering around emotionally. All the people they employed are without work, so what happens to them? More social costs, more medical costs. Half of our dairy farmers are on food stamps and WIC.

You give us a fair wage for our milk on a cost of production with a supply management and little profit and Mister, we will make this country move, because——[Applause.]

Ms. EAGEN [continuing.] We don't know enough to save money. [Laughter.]

We spend it. Oh, my son would go crazy if he had money enough to buy new machinery, just like all the other people, and fix up the barn and really go for it. What does that do to the economy? It creates jobs like crazy.

So please, go home with that thought. Thank you.

The CHAIRMAN. Thank you very much. [Applause.]

Could I bring you on the floor of the Senate with me the next time I have a dairy bill?

Ms. EAGEN. I am at your service, sir.

The CHAIRMAN. Thank you very much.

Mr. MILLER. Mr. Chairman, Mr. Secretary, I am John Miller, Executive Secretary and Treasurer of the Virginia State Dairymen Association, headquartered in Harrisonburg, Virginia, right in the heart of the beautiful Shenandoah Valley.

I would like to compliment you, sir, and the members of your backup team. You very seldom ever look behind you at what these folks are doing. Are they dozing, are they sleeping? And you know, I have been sitting on this front row, and I haven't seen a single one of them. That is amazing to me, they sit there and hear all of this, and the gentleman standing right beside me, I want to compliment him because he has done a great job serving you, Senator. [Applause.]

The CHAIRMAN. Let us give the staff a hand. [Applause.]

I must tell you, and I will tell you this on my time so it won't come out of your time, you mentioned Chuck Riemenschneider standing beside you and Tom Hebert and Tom Cosgrove and Chris Sarcone, Bob Sturm, Val Callands, Jim Monahan, Pat Westhoff,

Alicia Bambara, everybody from the Senate Agriculture Committee who has worked so very, very hard putting this together. That has meant spending a whole lot of weekends, a lot of late nights, and a lot of early morning hours to put on this hearing. They worked hard.

I also must compliment Secretary Espy and his staff. I know what it does to his schedule for the rest of the month to take this day off—the rest of the month, probably the rest of the summer, as Congressman Peterson has and my good friend Russ Feingold.

All of this is tremendous, but none of us, none of us could do it if the staff hadn't been so good and so professional, and none of us could do it if so many of you hadn't spent the money, taken the time and the effort and arranged your own schedules to be here.

So sir, I go back to you.

Mr. MILLER. Thank you, sir.

There is one date, sir, that is going to have an impact on every dairy farmer across this country and that is July 1, 1993. You know the dairy farmers here know what that is. That means your somatic cell count is going to have to drop to 750,000 from 1 million. That means that quality milk is going to be on the forefront of production for consumers to receive a high-quality product from each of our dairy farms.

We have tried to do that in Virginia. We have tried to work very carefully to ensure that the quality milk programs are enhanced because the milk product is no better when it leaves your farm and your bulk tank than when it gets on the refrigerator or on the kitchen table at that consumer. So that is a very important matter for each of us.

I would like to say that quality premiums also have been mentioned as part of our situation, which I think add to the total consumption value of our product as it goes to the marketplace.

I would like to mention, several speakers have said something about the Department of Environmental Quality, which we just recently started in Virginia, the Environmental Protection Agency, water control board, all of these factors are entering into a stage whereby it is going to affect each of our dairy farmer's pocketbooks. We have got to work and have a partnership relationship. We are trying to do that in Virginia, and I would like to say that that part is very important.

Nutrient management specialists, using our Extension Service more effectively, water control and the conservation division people, all of these are important to make sure that we can produce the highest-quality product at the best price, profitable to keep our dairy farmers on the land and the consumers can be proud of every one of us.

Thank you, sir.

The CHAIRMAN. Thank you very, very much. [Applause.]

Mr. SLUSARCZYK. I am Ed Slusarczyk, S-l-u-s-a-r-c-z-y-k, for the transcriber.

The CHAIRMAN. Thank you for spelling that. We could have had a little trouble with that one. [Laughter.]

Mr. SLUSARCZYK. I am with the Ag Radio Network, born and raised on a dairy farm and lived there throughout my college life,

but I found out I could make more money as a farm radio broadcaster so that is what I have been doing lately.

But there is one thing that bothers me about this dairy industry that all of us are interested in here today. We are very grateful to you, Mr. Secretary, and to you, Senator, for holding this summit conference.

It hasn't been mentioned today of how dairy farmers have lost billions of dollars through false advertising of their competitors, and I mean mainly the margarine makers of this country. The trans-fatty acids in margarine will kill you a whole lot faster than the CH and O in the fat of milk. [Applause.]

Mr. Secretary, your record in nutrition education has been very good in the Congress and many of us are hoping that you will be interested continually in pointing out to the American public about the value of dairy products as far as their health is concerned and that we can stop the false advertising, a lot of people who are falsely representing their imitation products as butter in the marketplace.

The CHAIRMAN. Thank you very, very much. [Applause.]

Mr. WELLINGTON. My name is Bob Wellington. I am with Agri-Mark Dairy Co-op, Mr. Chairman, a lot of members in your home State of Vermont and throughout New England and New York.

We have been trying to do some innovative things on milk pricing in the last few years. We have had some successes, at least short term, that I think would benefit the Secretary to hear.

In particular, we go to the great State of Maine, and in Maine we have set a Class I price at $16 minimum. It was in place for the last 2 years, and we haven't had a single complaint from consumers, newspaper editors, legislators, anybody. In fact, the State legislature just renewed it, at a $16 minimum Class I price.

In Massachusetts, for several months last summer they had a $15 pay price to consumers. And once again, no complaints from consumers, and this was a pay price to farmers.

We are now working on a dairy compact in New England to try to coordinate all our prices. I will give you one good idea. In the State of Rhode Island, we have only 36 farmers left, yet the House of Representatives in Rhode Island voted 76 to 7 to support these higher prices to farmers.

I think the message that is most important to get back from this perspective that we have learned is that informed consumers are farmers greatest allies when seeking fair milk prices. They are not the opponents. In fact, when prices went up dramatically in 1989, the calls that we got were not complaining about the prices. The calls were, who is getting the money, is it the farmers or someone else? And when the farmers got the money, that wasn't a problem.

One of the issues that we see there is on milk subsidies, so many consumers are worried about farmers getting subsidies. One of the things they have to realize is that when farmers are getting below costs of production they are subsidizing consumers, and you cannot have 140,000 farmers subsidize 250 million consumers. It just doesn't work.

The CHAIRMAN. Thank you very much. [Applause.]

Mr. TEWKSBURY. Mr. Chairman, Arden Tewksbury from Meshoppen, Pennsylvania.

I just want to let you know that Ms. Danielson's testimony today has the support of the National Farmers Organization, the National Dairy Campaign, the National Family Farm Coalition, the American Ag Movement, and the Progressive Agriculture Organization. That is a lot of support across all this United States, and last night we had farmers here from 21 different States here to attend this session today, so that is a pretty good tribute to what is going on here.

There is a lot of misunderstanding when we talk about costs of production and people say, well, everybody has a different one, and that is true, we do. What we are talking of in a true two-tier program is we will use the national average costs of producing milk as determined by USDA.

Now there have been some figures floated around today about production credit and their costs of production being a little different than USDA's. I think everybody should understand when production credit puts together their costs of production, they use off-farm income as a method of lowering the costs of producing your milk on a farm. I think everybody should know this. There is a big difference. USDA does not use that.

To those who say, let the free market set the price to farmers, all we are asking for is to get the milk prices returned back where they were 3 years ago when in this area the average farmer was getting about $15.45 per hundredweight for his milk.

Three years ago, the Pennsylvania Milk Marketing Board established prices in Northeastern Pennsylvania and they came to $2.55 a gallon. This spring, they went down to $2.19 a gallon. Farmers took a 36-cent defeat in this so-called free market. Somebody tell me how we can get that 36 cents back to our farmers like Mr. Wellington just said they have done in Maine and so on. Get that back to us. Not only will we revitalize our farmers, you who are concerned about losing 15 percent of the small business people, 10 percent of these would be in business today if the farmers were getting a fair price.

The CHAIRMAN. Thank you. [Applause.]

Mr. ———. Mr. Chairman, I appreciate you being here, but what I would like to say, in the past 2 years, some of us have worked across the United States to put together some unity to get something done. We appreciate you starting it today, but we intend to go on to Washington. We intend this time we are going to follow the process on through. We are going to help you pass us a good supply management. And a lot of these people will be in Washington, DC for the next few days off and on.

Thank you.

The CHAIRMAN. Thank you. I look forward to seeing you there. [Applause.]

Before we go on, also on the list of names that help us a lot during the summer are some awfully bright young college students who work as interns in the committee. Melissa Ruane and Sonia Schadinger and Douglass Sloan, I want their names in here too because they have had a baptism of fire in coming down here from Vermont to work on this summit.

Mr. SMITH. My name is Donald Smith. I am President of Community Farm Alliance, a grass roots organization in Central Ken-

tucky, or all over Kentucky, actually. I am also a member of Dairymen, Incorporated, based in Louisville, Kentucky.

Our leaders of Dairymen, Incorporated have been working against the two-tier program. They need to listen to their own constituents because about 70 percent, from what we can understand, do support a two-tier program.

Thank you.

The CHAIRMAN. Thank you very much. [Applause.]

Mr. FOLEY. Mr. Secretary and Mr. Chairman, as I listen here today—I am Terry Foley, a dairyman from Maryland—and as I sat here and listened all afternoon, most of it is what we already knew. There were an awful lot of problems, and that is what has been presented here today, and not many solutions or not many policy changes to achieve the goals that we would like to see, which is raise the price of milk.

I think the M&W series that we now have has already started to be dismantled. The M&W used to set the price of all milk. Now the M&W only sets the Class II, the Class I. In Federal order 4, which we are in, we now have III–A pricing, and it is in two other Federal orders. It looks like to me it is almost a done deal, that it is going to go in on all the 40-some Federal orders.

So it looks like we are moving to the market as not being set off of the M&W but to product pricing, because the powder and the butter, the milk going into those plants will be based on what they can sell the product for. So basically it is a reverse of what it used to be. The butter-powder plants used to pay the Class II price. Now if they can sell the powder, goes down, they will reduce the price of the milk that they are going to pay.

So the Green Bay, Wisconsin cheese exchange, we sell cheese. Let that go ahead and set the price of cheese, ice cream, and some other products, and then we only have one class left, which is Class I.

So if we would go ahead and decouple Class I and leave it in all 40 Federal orders, decouple it and set it at the cost of production, and it would be floored at the cost of production. It would stabilize 40 percent of the milk produced in the United States at cost of production.

I know that there are some people who may agree, some don't, and I am not going to take a whole lot of time with that, but there is one thing that I always wanted to do was to get up in front of the Secretary of Agriculture, so this question I would like to direct right to you.

I would like for you to tell me what is the Government's involvement or what is their goal in agriculture, particularly dairy. And I will help you out a little bit. [Laughter.]

Is it, A) the Government is involved in agriculture to provide the most abundance of food at the cheapest possible price, or B) its goal is an adequate supply at an adequate price? I would like you to comment on that.

Secretary ESPY. A and B. [Laughter.]

We, you know, we have been there 5 months, and to be very honest with you we have been moving from crisis to crisis, or at least I have. We started with the *E. coli* crisis in the Pacific Northwest and then we went to the corn crisis in Michigan, potato crisis in

Maine, the cotton crisis in Arizona, the credit crisis in Russia, the medfly crisis in California.

And to be very honest with you, the beginning of the summer is very symbolic. In fact, today, I think, is the beginning of the summer. Summer, in my estimation, is the time where you sit back such as you can, you shut the door, you close the window, you think about strategy and tactics for the next year.

This hearing today offers me an opportunity to listen to what you are saying. I am very happy that the Senator gave me this opportunity to come to this forum, to hear about your concerns and your wishes. So I have been back in the feeding room next door. I have heard about all different suggestions from producers and processors as to what the strategy should be from the USDA standpoint. So we are going to hear everything today and we are going to come up with a philosophy, working with the House and the Senate, to support dairy producers.

My feeling is that I would like to see a market increase in farm income, okay? I would like to. I would love to see it very soon, and I know I want to see it within my tenure at USDA. There might be several ways to do it. It might directly be with regard to supply management, it might directly be with regard to more aggressive marketing of DEIP, it might be other ways. I am interested in looking at everything.

Thank you. [Applause.]

The CHAIRMAN. If I could add just one personal note to that, I have been extremely impressed with the openness of the Secretary to suggestions during the long discussions he and I have had.

And Mr. Secretary, if you want a quiet place to put your feet up, you are welcome to come to my tree farm in Vermont any time, but I would suggest during the summer. The lowest we had was 38 below zero there last winter.

Go ahead.

Mr. DONLEY. Mr. Chairman, I am Tom Donley, President of the York County Chamber of Commerce.

I want to welcome you and Secretary Espy, Secretary Wolff, members of the committee, and everyone who is here today to York County. We are very proud of our agricultural way of life in York County and we know how difficult it is for the farmers who are here to make a living.

I would like to draw your attention to a slightly longer-term issue, the future of our young people on the farms and in the small towns and rural areas in America like York County. And specifically, I want to draw your attention to a joint venture being developed by the U.S. Agricultural Extension Service, the U.S. Chamber of Commerce Federation, and the 4–H Clubs across the United States. It is a program called EQuYP, which stands for Excelling Quality Youth Programs. It is being led within the Agriculture Department now by Dr. Joel Sobitsky, who is the national 4–H program director.

The program is a strategic partnership to improve the career skills of America's youth in 4–H by exposing them to life skills and career skills through experiential training, working with businesses in their communities.

And a good example to drive it home, as much as the Boy Scouts have reinvented themselves over the last decade or so by being relevant to youth in the inner cities of America, this is an effort by 4–H and the Extension Service and Chambers of Commerce across the country to prepare young people to be able to stay in their small towns in their areas. They may be doing it by running a farm, which you all know is a very difficult business these days. They may do it by preparing for some other entrepreneurial venture.

We have 2,700 local Chambers of Commerce across the country who are part of this federation, and I would like to leave with you that with a modest amount of public and private leadership and also funding, right now with the program in the Department, developing the curriculum, developing the marketing, we can be up and running with this program in hundreds of communities across the Nation in 1994.

I would encourage you to take a look at the program, to keep pushing it along. We believe that EQuYP exemplifies President Clinton's call for volunteerism and public-private partnerships in community service and work force preparation to help prepare our young people for the future.

I have a letter, and I would like to submit it for the record, then, for members of the committee. Thank you.

The CHAIRMAN. Thank you, and it will be made part of the record. [Applause.]

The CHAIRMAN. Incidentally, I want to emphasize again for each of you who speak, if you feel that you ran out of time or whatever, you have something additional you want to add to the record, just send it to me, Pat Leahy, U.S. Senate Agriculture Committee in Washington, DC and we will get it and include it as part of the record, if you felt that you didn't have quite enough time to make a point or you want to add to a point that you have made. The mail does get to me. There are only 100 of us and they can usually find me.

Go ahead, sir.

Mr. KRUG. My name is Bruce Krug. I am a dairy farmer from New York State and I am State coordinator for the New York Farmers Union.

I would like to first start out by thanking Senator Leahy and Senator Feingold for the BGH moratorium that they just got passed through the Senate Agriculture Committee. [Applause.]

Mr. KRUG. And I would like to express support for a two-tier program and cost of production plus pricing by the New York Farmers Union.

Just to clarify what is happening up in Canada with farm losses, I don't necessarily dispute the facts presented today, but sometimes the facts are presented in such a way that they don't really tell the whole story.

When the program first went into place up there, nearly 100,000 so-called Canadian farms went out of business. But when you break that down and look at the facts, about a third of them had only one or two cows. Approximately another third had from 3 to 7 cows, and the last third had from 7 to 12. Now the first two groups were not going to stay in under any system and they were

not true commercial farms. The last group included people who sometimes consolidated their farms into one 24-cow herd. So those figures are very misleading.

There are other things that I should bring out on the Canadian program. I think the age factor when you compare the two systems tells us a real story. The average age of a Canadian dairy farmer, at least in Ontario, is in the early 40s, around 43 years of age. In the United States, it is in the late 50s. Also in Canada, 20 percent of the dairy farmers are under the age of 30 and you don't find that here. It tells you how people can get into business and whether the farms are viable to pass on to somebody else so someone can get into the dairy business.

Also, one last point on the Canadian and the two-tier system. True, people may still go out of business, but the reason they go was not addressed in those figures that were on the screen either. Two-tier supply management may not cure every problem but it could cure the price problem and that is the biggest one we face. There are other problems, sure, but if we can maintain a profitable level of production, we can keep going.

One last quick point. We do not support the self-help concept. National Milk has been basically responsible for the 1985 and 1990 portions of the farm bills, and when I look at the so-called success of those programs I have to tell you I really do not want to turn my future over to the same hands that designed those programs.

Thank you. [Applause.]

The CHAIRMAN. If the gentleman could just stay there for a moment, on the question of the two-tier program, mandatory or voluntary?

Mr. KRUG. I believe it has to be mandatory. I don't see how you can kick in bases in and out and keep the production in line.

The CHAIRMAN. Thank you. [Applause.]

Ms. FORKEL. My name is Lynn Forkel. I am a dairy farmer from northeastern Pennsylvania. I am a member of Women Involved in Farm Economics.

I guess I address my comments to Secretary Espy when I say that since 1985, Abbott Laboratories has price-fixed Similac whereas they have been able to increase the price sixfold in the last 8 years. It became price prohibitive for me to feed my children Similac, and I can't imagine what it did to the cost of the Women, Infants and Children (WIC) program and the cost to the American taxpayer.

Please, when you go back to Washington, when you bring this up, we would like a supply management program. The people will tell you who are very interested in the social programs the impact it will have on the social programs. Please remind them that they must reel in antitrust law violators and fine them accordingly while initiating a supply management program, because if we have a supply management program, it will do us no good and it will do the consumer no good if they continue to have to pay high prices for our products because they are violating antitrust laws.

The antitrust laws must be reeled in and enforcement must be undertaken to move the savings through to the consumer. We have been getting—the price of milk also went down quite a bit in that 8 years as the price of Similac went up, and the cost to the WIC

program could be significant and continue to be significant if they aren't called on the carpet for this.

Please, if you implement a supply management program, reel in the antitrust law violators also.

The CHAIRMAN. Thank you very much. [Applause.]

The CHAIRMAN. Sir?

Mr. HAMILTON. Senator Leahy, Secretary of Agriculture, Mr. Espy, my name is Lynn Hamilton. I am a dairy farmer from Washington County, Pennsylvania, south of Pittsburgh.

I support the two-tier concept of supply management.

The CHAIRMAN. Mandatory or voluntary, sir?

Mr. HAMILTON. It would have to be mandatory.

The CHAIRMAN. Thank you.

Mr. HAMILTON. We have heard a lot here today about the free market system. Has the free market system worked for you over the past 12 years? Does the free market system work when 1-percent surplus can translate into a 30-percent reduction in your price? Is this the type of system we want to continue to live under?

I submit, Mr. Secretary, that it is a crying shame what we are doing to our rural Americans. They are the hardest working, they put in more hours, and what do they get? They are the best citizens, they make the best soldiers, and they make the best workers that the country ever produced.

I submit to you in all honesty and sincerity, we do not need less farmers, we need more farmers. [Applause.]

The pages of history are replete with examples where when they have lost their rural population they have lost their army and they have lost their civilization. Do we want to go further down that road or do we want to reverse that process?

Now the price of milk is one thing that you are going to have to control. You are going to have to get us a better price for milk. When you do that, you are going to have to control the supply. You cannot put the price up and expect it to stay there without controlling the supply because the big money will come in and they will flood the country with milk.

Now we have to have a supply, we have to have a price, and we have to have constant prices so we can go out and plan, so that we can loan money against this price that will be there for the foreseeable future. You can't go into a lender today and ask him for any money because the price is so volatile, and you can't sell the farm because no farmer could buy it. No farmer could afford it on the price of milk. He couldn't pay for it.

So these are the problems we face. We are in hopes that the new President, who said the people who work the hardest and pay the bills are not going to be forgotten, and we believe him and we think you folks will come through and we are going to come down and help you.

The CHAIRMAN. Thank you. [Applause.]

We can use all the help we can get.

Alicia?

Ms. LIGHT. Hello once again, Senator Leahy, Lee Light, Marshfield.

The CHAIRMAN. Marshfield, Vermont.

Ms. LIGHT. Marshfield, Vermont, Co-Chair of the Board of Directors of Rural Vermont, and hello, Secretary Espy.

I think that this is a wonderful opportunity for you to really hear what the farmers have to say. I get a little bit nervous when I see all those gentlemen up there talking about free market and free trade and we here in the audience are saying that we want two-tier, we want cost of production plus a profit.

Now from what I understand of the free trade agreements, under either one of those proposals what that will mean to us is that any internal programs that we have, agricultural programs that we have to protect the prices to our farmers will be done away with.

So here we are standing here saying to you, we want a dairy program that is going to get us the cost of production, and these folks up there are telling us we want free trade and free market.

The CHAIRMAN. Wait a minute, I will take some exception to that. You have had people up here on these panels, some of whom have been for two-tier, some have been against.

Ms. LIGHT. No, that is absolutely——

The CHAIRMAN. You have had some who have taken diametrically opposite views on exports, and I think that the views of the panelists have represented very accurately the views of people I have heard both on these questions and also during the breaks.

We have tried to get as diverse of views as possible, and I think the panelists, all of whom came here at either great cost or had to change their schedules to do it, have tried to express and show that balance of the different views from around the country.

I mean, they are not here to defend themselves, but there have been diverse views expressed and I think they have expressed all of them.

Ms. LIGHT. Senator, let me correct myself. What I was feeling nervous about is that you had said that you had seen many of these people coming in and talking to the Senate Agriculture Committee. That was the point I was trying to make. And here you actually get an opportunity to talk to farmers with an entirely different opinion, and I think that that is really good.

But what I wanted to say is I am very concerned about the trade agreements and how that is going to affect any kind of a dairy program we might want to set up here in this country.

I had the opportunity last December to travel to France with five other American farmers to talk to the French farmers about the GATT agreement to find out why they were opposed to it, and they have a very successful program in their country. They have a country that realizes that they need food. That country has been without food before, and they want to protect their agricultural community, so they are willing to support, not support out of dollars paying to the farmers but having a quota system that can keep the farmers on the land.

We also worked with Canadian farmers and the Canadian farmers know they have to work together for their own survival, that when something is happening in their government that is going to adversely affect policies that sustain their agricultural programs, that they have to stand up and say, this is something that we as farmers feel is very, very necessary, the survival of the rural economy.

And what I am saying here is that if we as farmers can come up with a united voice for a two-tier or some sort of a permanent supply management system, that we have to make sure that we don't enter into the trade agreements and have that all wiped away.

The CHAIRMAN. Thank you. [Applause.]

Again, one of the reasons the Senate Agriculture Committee has spent more time holding hearings outside of Washington with me as chairman than under all chairmen of the Senate Agriculture Committee before, is so that we can hear people who don't necessarily have the opportunity to come before the committee. That is why, as I said, since I have been chairman there have been more meetings held outside of Washington where farmers or anybody else could come.

Yes, go ahead.

Ms. FLOGEL. Secretary Espy, Senator Leahy, and panel, my name is Madeleine Flogel and I guess I don't have to tell you where I am from.

I guess the first thing I would like to ask you—well, let me start over here. I have waited so long I forgot what I had to say. [Laughter.]

I believe that any time that the people in this country are having trouble that are feeding us that everybody should stand up and listen, unless there is somebody out there that doesn't need to eat to stay alive.

Mr. Espy, one of the things that I have traveled a long way to ask you is to please leave the doors open to the dairy farmers, the producers that own this land and own this business and pay the taxes and do the work, because in the past we have turned to our Government and we have turned to our agriculture people for help, to find out what we can do to help this industry so we can survive, and we have had doors practically slammed in our face.

Our administration, many of our representatives, unless you are with ConAgra or Cargill or Kraft and many more I won't bash today, and even, I will say, National Milk or your co-op, you are not able to even get in the door to talk about what was going on.

And I have a very good feeling about the new administration and you in particular. It seems that you want to listen to the producers themselves, because I feel that they have a right, every right, to have a say in what happens to us, and when someone comes to you and, for instance, again to use National Milk, and says that this percentage of these people are in support of this program, I will give you one example.

I stayed on the phone from the day I found out about this summit. I never got off my phone, and everybody that I knew that was ever involved as I have been for 3 solid years every day to try to get them here to show you that we are so happy that you have done this, and I told them about this self-help program and very few, maybe two of them even knew about it. Now how can they say that we support something we have not even seen?

Please, keep your door open. Let these people that do the work and sweat and have suffered immensely have a say. [Applause.]

Secretary ESPY. Just a brief reply. Again, we have only been there about 5 months, but we will never shut the door in anyone's face.

Since I have been there, we have traveled to about 30 States in 5 months, sometimes twice, speaking to groups and listening to groups that some would consider are nontraditional. We have received so much input that already I have used the comments I have heard and we have begun to transform policy at the USDA.

When it comes to even meat inspection, there are those in the room who know to a great degree of certainty that I have sat down with whistleblowers, men and women who have been on the front line of these meat inspection problems, and we shut the door and we talked about what they saw and how they think we need to change, and I have even incorporated some of their ideas, many of their ideas, frankly, in our new policy.

So we are there. We are accessible, we are open, and that is why I am here today. Thanks. [Applause.]

The CHAIRMAN. I was going to say, you made a powerful and good statement and I am glad to hear you say it, but I should point out the openness of Secretary Espy. When I first raised this with him, I assumed that I would get one of these, well, that is a very interesting thought, you know, having people come in, and I will get back to you, and then I would have heard 3 weeks of all the reasons why not.

I raised it with him. I barely got the sentence out of my mouth and he said, it is a great idea, as long as it is open to anybody who wants to come in. That was his reaction. I find that very, very refreshing in a Secretary of Agriculture. [Applause.]

Ms. ———. I agree with you wholeheartedly, Senator Leahy, and thank you for listening to us.

Welcome, Secretary Espy. After President Clinton was elected, that was a ray of hope. When he assigned you the position of Secretary of Agriculture, that was another ray of hope. This is the third.

We were told to come here and to find common ground. To me, common ground is the American soil, and I think if we all dig real deep we will find that the roots of our American soil are based in agriculture.

I am really worried, and I think everybody in this room is, about our economy, and I would just like to support those that have spoken of the rural economy and how we as dairy farmers can help you to bring America back to where it should be. Just like someone else said, you give us the money and we will get it back to the people in our rural areas.

Just before I sit down, I wondered if everybody that milked a cow in the last 3 days would stand up so you can see the dairy farmers.

Give yourselves a hand. You deserve it. [Applause.]

The CHAIRMAN. Actually, I am glad that for the latter part of this meeting that Senator Wofford had another scheduled event he had to go to, because he would have really shown me up. He milked one this morning at about 4:30, and I have to be honest. The last time I milked a cow was on the Howrigan farm and that was a few years ago. The farm still survived, though. At least it didn't create that much damage.

Yes sir?

Mr. GABLE. Thank you, Senator Leahy and Secretary Espy. I am Robert Gable, a Pennsylvania dairyman. I am on the board of Eastern Milk Producers and also a member of the Pennsylvania State Grange dairy committee.

We are going over the policies of the Grange dairy committee and we found that maybe they need to be reworked a little bit, so perhaps some of the things that I will put forward today are a little bit off what that policy says.

I think we understand production and we understand efficiency in the dairy business. I was born on a dairy farm and I still am a dairy farmer. Within the next 2 years, our son will probably step into the management of that farm. I do hope that he has a future in the dairy industry.

Some things that I think we should consider as we develop this policy and program is the marketing of our product, whether it is here in America or overseas. I think we have a quality product, we have the ability to produce that quality product in volume, we have the capacity to produce it. I think if we pay a little more attention to marketing that perhaps that is where the future lies.

I think we probably shouldn't get hung up too much on price. However, price is important so far as supporting the dairy farm, but if we market a quality product, the price will take care of itself.

I think that some of the ideas that have been put forward in the self-help program, the expansion of overseas markets are areas that we should take a careful look at, and I think that is where our future lies and not so much in legislation that would restrict this efficiency and ability to produce that we have developed.

Thank you.

The CHAIRMAN. Thank you very much.

We have time remaining for a couple more on each microphone.

Mr. HATHAWAY. Hello. My name is John Hathaway and I am a dairy farmer from Ilion, New York.

Thank you, Mr. Leahy, for calling this summit, and thank you, Secretary Espy, for joining with us.

I find that often the case here is we seem to instead of targeting where the problem is we try to repair the whole automobile from beginning to end. We really, truly are not in a dilemma in the processing industry and we are not in any dilemma in the retail end of our industry, but we have a major, major problem out on the farm with low prices, bankrupt farmers, and a rural economy that is going down the tubes at a tremendous pace.

I sincerely believe the only solution that we can use to turn this around will be a strong two-tier pricing with a cost of production that returns our investment and labor.

The CHAIRMAN. Voluntary or mandatory, sir?

Mr. HATHAWAY. It would have to be mandatory.

The CHAIRMAN. Thank you. [Applause.]

Yes sir?

Mr. MCGREGOR. My name is Ralph McGregor. I am a dairy farmer right here in this county of York, Pennsylvania.

Secretary Espy, Senator Leahy, my appreciation to you and all of your efforts to come here and address what is a very, very impor-

tant aspect of American agriculture and that is policy for the dairy industry.

I really appreciate the scholarly research, the factual data, and the global approach to marketing globally and domestically that we heard in many of our presentations this morning, and I would certainly trust and I know that you will use those good facts and figures and research and the best businesslike approach to developing policy that you need to do and you will.

However, Secretary Espy, I do not want you to face another crisis as the many that you have alluded to, and so please don't listen to the emotionalism of this meeting or there will be a crisis in the dairy industry. What the industry cannot afford is Government-manipulated quick fixes that may provide an immediate boost but be a great detriment to the longer term future of the dairy industry.

Thank you.

The CHAIRMAN. Thank you very much. [Applause.]

Mr. JUNK. Thank you again. My name is Robert Junk. That is J-u-n-k.

I would like to welcome Senator Leahy and Secretary Espy to Pennsylvania. I represent the Pennsylvania Farmers Union. I am the State president.

There are a few things that I would like to address, and I think a lot of have been discussed here. I would like to make a few comments, and that would be we all talked about a two-tier pricing program and I know there have also been some comments regarding a self-help program.

The self-help program is basically consisting of assessments to farmers that have been assessed on top of assessments. We are looking at taking an additional up to 10 cents assessment to pay for a board to find a market for our milk, when we have one board right now that is supposed to help us promote our product. We have the Government right now that is supposed to help us with export markets. Why establish a third board to help promote our products also?

I think it is just another layer of bureaucracy that the dairy farmers have to pay for without any actual accountability to the producer, and I strongly believe that a two-tier program is not a quick fix.

It is a long-term fix, because you are finally putting your production in line with demands, and any good businessman does that. I don't care if you are a dairy farmer, a shoe salesman, a carpenter, whatever. You always put your products in line with demand. And until we do that, we are always going to be faced with this problem.

That is all I have to say. I thank you very much for coming. Thank you very much for having it in Pennsylvania, and hopefully some good decisions will come of this.

The CHAIRMAN. Thank you very, very much. [Applause.]

And ma'am, while you are going to be the penultimate person, the next-to-the-last person today, I would note this. After the next two there may have been some others that wanted to speak, and I apologize. I would ask them, though, to send their comments to me so they can be part of the record.

Ma'am, go ahead.

Ms. LEE. My name is Jowan Lee and I am with Women Involved in Farm Economics. We wear red because we are in the red with our books.

One thing that WIFE would like to see done is to have the WIC program taken out of the USDA budget and put in the social services budget where it belongs. [Applause.]

Every time we go to talk to our Congressmen they say, well, we can't give you any money because of the WIC program. It will make WIC more expensive. And especially in New York State where I come from, we have 36 Congressmen, a lot of them from New York City that are real concerned with the poor.

I am real concerned with the poor farmers around me. In our own instance, we have had three flat tires this week. I know a farmer that has to take a battery out of one tractor to put in another when he is doing his haying. There is an awful lot of stress out there on the farm and I am really fearful of what is going to happen.

Thank you.

The CHAIRMAN. Thank you very much. [Applause.]

Harold, you get the last word.

Mr. HOWRIGAN. Thank you, Senator.

We certainly appreciate Secretary Espy and you, Senator Leahy, Senator Feingold and Representative Peterson and the Secretary of the Pennsylvania Department of Agriculture for being here. It has been a long day, obviously.

But I think we are at a crossroads in the dairy industry, a crossroads because we are, as you heard so very eloquently from so many people here today, we are in trouble, but also a crossroads because now we have a Secretary and an administration who are listening and we may, just may, accomplish something really worthwhile.

I think that you have heard from many people the various programs and I think we should look very carefully at the self-help program, which is a two-tier with a flexible base and so forth and deserves your attention.

But I would also like to leave one message with you. I am a dairy farmer, Harold Howrigan from Fairfield, Vermont. I am president of St. Alban's Cooperative Creamery, and we at St. Alban's serve at the wishes of our membership and for the express benefit of our benefit. I think what is good for our co-op is good for our membership. We do manufacture products. We have a sale for about something less than 50 percent is Class I or fluid. The rest goes into manufactured product. We have a list of customers who we sell our product to, so we do more than just take your milk and dump it. We follow it through the market and return a profit to our members as a 25th check.

I think the people here ought to realize, and Mr. Secretary in particular, the service that the co-ops do for their membership.

Thank you.

The CHAIRMAN. Thank you very much.

With that, I will turn to Secretary Espy. But first, let me note that in 19 years in the U.S. Senate, I have never seen a Secretary who has spent so much time and gotten so involved in one commodity.

Even before he speaks, could we all give the Secretary a round of applause? [Applause.]

Secretary ESPY. Thank you. Thank you.

I just hope you feel that way next year at this time. [Laughter.]

CLOSING REMARKS BY SECRETARY ESPY

Secretary ESPY. I have been sitting here quietly for most of the summit today, and I do have a couple of things to say and it won't take me very long.

I first would like to thank Senator Leahy for the invitation that he extended to me some time ago. I didn't have to think about it very long because honestly, I know that I needed to be here, I needed to hear your concerns. The fact is that I have never had a chance to come to Pennsylvania as Secretary of Agriculture and I knew that this was a site I wanted to visit.

But I also wanted to be here because I believe in this particular chairman. I am a friend of his. I have known him for quite a long time. When I was a member of the House of Representatives, I worked with him on many, many bills on many, many days. We traveled together to some other countries, and I have gotten to know him and I have gotten to know his wife. And the fact is that he exhibits the kind of style and exudes the kind of leadership of this committee, directing its activity, that I really wish more chairmen had.

You know, he has three qualities, I think, that serve us all well. One is the fact that he is incredibly knowledgeable about these agriculture programs. Secondly, he is sensitive to the situation. And third, you don't have that kind of ego that a lot of these other chairmen have where they just don't want to listen because they think they know everything.

So I am really proud to be here, proud to be with him, and glad that again we are getting outside of Washington to hear what you really have to say.

Now as I said in my opening remarks, I did come here to listen and today I did hear a lot. I heard that there is a lot of pain and suffering among dairy producers across our Nation. I have heard that something needs to be done to assure that dairy producers are receiving income that is above the cost of production.

I have heard a lot of different approaches as to how to get there, whether we are talking about continuing the current program or moving more to increased exports or moving to supply controls. But most of all, I have heard that the future of much of rural America depends upon an agriculture policy, construction of a policy, whether be it for dairy or for wheat or for cotton, but one that depends upon the American producer to keep him or her at heart and a policy that they can depend on for the long term, not one of short-term fixes and long-term instability.

So I am going to take these ideas and thoughts back to Washington this afternoon and I am going to continue to work, of course, with Senator Leahy and Senator Feingold and the Senate committee and the House committee to consider policy changes that will assure that the dairy producer in rural America has a future.

Outside at the lunch break, I did an interview, and I was asked by the TV commentator, what did I mean in my opening statement

when I said that we want to be farmer friendly? As Senator Leahy said, I can't talk about prospective changes, things that we will do in the near future or the long term. I can't do that because of the impact that it certainly will have.

But I can tell you something I believe and things that we have already done in this vein. When I talk about farmer friendliness, what I mean first of all and foremost is the fact that the USDA will construct policies and have an attitude that will treat the farmer with respect. [Applause.]

And once we make an announcement, once we construct regulations, once we declare policy, these will be changes that you can have confidence in because they won't change soon and policies that will give the farmer the benefit of the doubt.

When I say farmer friendliness, what I mean is constructing and changing USDA from an incredibly large bureaucracy with offices spread out here, there, and yonder to a streamlined, tough, effective, efficient farmer service administration where you can go and get all your needs taken care of without having to travel incredibly long distances.

What I mean when I say farmer friendliness is attacking the export markets to make sure that we can use the EAP and the DEIP and the MPP. I believe in the MPP, but I also believe, as Senator Leahy said, that in many ways that program needs to be changed. We need to get back to the original purpose of the MPP, but I do believe in its use as an effective mechanism to attack some of the very highly-subsidized products from abroad.

And lastly, when I say farmer friendly, what I mean is we need to pay attention to the producer's bottom line. We have to increase farm income as an element of these programs. We have to do it. [Applause.]

So we have done some things already. We have increased the farmers' loan reserve. We have eliminated—when it comes to corn classification, there used to be a double discount on corn classification. We eliminated one of those to add more value to the corn and therefore increasing the bottom line.

We have, as I said before, suspended all farm foreclosures, those foreclosures that as of that time had not yet been referred to any court, simply to give the farmer the opportunity of a fourth review, to give him or her the benefit of the doubt that we will not do anything to hasten any demise at all.

Secondly, and this is rather controversial and I think the Senators here can attest to this and the House members, is that we have had some weather problems around the country in the last 5 months and the weather problems have caused the value of certain crops and the quality to be diminished. Well, we are trying to come up with a new definition of disaster and have it expand from just categories of quantity and also tell everyone that categories of quality should also be incorporated, because again, that affects the value and affects your bottom line.

We have changed haying and grazing policies just in the last 2 or 3 days.

I do believe in using Section 22 authority to combat unfair trading practices. [Applause.]

We have done something—the difference between this administration and the last administration. Who was it that said, there are lies, there are lies, there are damn lies, and then there are statistics? [Laughter.]

Well, the former USDA used to have a figure called farm income, right, and it used to be pretty high, somewhere like $50 million a year, but they didn't explain it. So we started 2 weeks ago with another statistic called average family farm income. This first figure, and we did this based on the National Agriculture Statistics Service, we told America last week for the first time that average family farm income in this country is somewhere like $5,500 a year. [Applause.]

And that included full-time and part-time farmers, because we want to be very clear. It included part-time farmers as well.

But it tends to counteract what I call an attitude of urban narcissism, people who believe that cotton shirts grow on the racks at K-mart, and people who believe that vegetables just somehow spring up automatically at the bin of the A&P, and that things are okay in farm country, because they are not okay in farm country, and that is why we started putting out this figure and we are going to do it with regularity.

And so lastly, let me say that during lunchtime I talked to a dairy producer who made an analogy that I want to relate to you because it makes a lot of sense.

I was a little late this morning because the fan belt on our van busted and we were out there with the radiator smoking and all. He said, Mr. Secretary, I got to thinking about what happened to you and your van this morning and it reminds me a lot about what is happening in agriculture. He told me that the total number of agriculture producers might be less than 3 percent, but like those little fan belts in the engine of that van, without them you aren't going to go anywhere. [Applause.]

Well, he was right. Without a strong agriculture base with a decent level of income, this country will eventually, maybe not tomorrow and maybe not next year, but eventually this country is going to come to a screeching halt just like my van this morning, and so I know that and I am certainly going to remember what he told me.

So I came here today first and foremost to listen, but I do want to assure you that I didn't do any idle listening. I will take my thoughts and I will take the testimony that is being transcribed here today, and I am sure I will get a copy of this, Senator, and we will continue to do everything in our power to develop policies in this administration that are farmer friendly and that will help your bottom line.

Thank you. [Applause.]

The CHAIRMAN. Thank you very much, Mr. Secretary. I appreciate that.

As I said earlier, when I first talked to the Secretary, I said we will do this outside of Washington so we can hear people who don't normally get to Washington, and we decided that right in that first conversation. And one of the reasons I did that, as I said before, is I like taking the committee out of Washington for these hear-

ings, but I could do it only because my members have been supportive of me and helped.

The newest member on the committee is Senator Feingold of Wisconsin. He has already put in more hours and more effort and more work, and I want the people from Wisconsin to hear this because I don't pass out these kinds of compliments easily. He has put in more hours and more effort and more work than I can ever remember a new Senator putting in.

Russ, I just can't tell you how thankful I am that you are a member of the committee. It has helped the whole committee. I yield to you.

CLOSING REMARKS BY SENATOR FEINGOLD

Senator FEINGOLD. Thank you so much, Mr. Chairman.

When I first heard the chairman and then Secretary of Agriculture-designate, Mike Espy, talk about this dairy summit, I thought perhaps the chairman was just talking and maybe this guy just wanted to get confirmed. I didn't know if it was really going to happen.

I am extremely impressed not only that it has happened but that it has happened so quickly. It really took my breath away how fast this was done and how well it was done. I thank the chairman and the staff for a wonderful job. I particularly thank the Secretary.

I have been in Government for over 10 years now. I have never seen somebody in the Federal Government sit and listen like this in my career, and I am just enormously impressed. We from Wisconsin are grateful to you because, of course, we are the number one dairy State and this means a great deal to us, that you would take the time to do this. [Applause.]

I also want to thank all the farmers from all over the country, and of course from Wisconsin. I was delighted to meet people from all the other States who are following what we are trying to do on the committee and who are committed to the issues that we have talked about today.

This summit was groundbreaking. I have many things I want to say, but obviously it is very late.

There is still a need for some consensus within the industry. Without some unity, there can be no success. And I have heard points of agreement today. Prices are too unstable and too low, we need to keep supplies under control, export markets are important, the dairy industry and rural communities need help, and we need a level playing field, both domestically and in foreign markets.

But the one comment I want to leave you relates to Mr. Young's statement. We heard Mr. Young talk about the fact that there will continue to be fewer and fewer dairy farmers under most policy scenarios. Now that may be true, but I also believe that it is my job as a policymaker to determine whether or not that is desirable.

The country has always balanced two goals, efficiency and equity. I believe that through sound policy we can keep dairy farmers in business and accomplish those two goals. I don't think Mr. Young's forecast has to be true, and I don't want us to make his prediction a self-fufilling prophecy. [Applause.]

As I look at the issues that were presented today, I see many predictions that will become self-fulfilling prophesies if we let

them. I don't want to see it to be a self-fulfilling prophecy that we have to accept bovine growth hormone, which will only harm us. [Applause.]

I don't think it is a self-fulfilling prophecy that we have to accept NAFTA if it will harm us. [Applause.]

I don't think it is a self-fulfilling prophecy that we have to accept the GATT agreement, and the elimination of Section 22. [Applause.]

And I don't think it is an automatic that we only rely on a purely market-driven system if we can come up with a good supply management system. That is right, it is okay, if it is appropriate use of Government, and it can help us keep our dairy farms. [Applause.]

I look forward, as I have in the past, to working with all of you, and I want to conclude by saying it is wonderful to be a new Member of the U.S. Senate and to be able to work with people like Chairman Leahy and Secretary Espy.

Thank you very much. [Applause.]

The CHAIRMAN. Thanks, Russ. [Applause.]

Thank you, Russ. I appreciate that.

Congressman Peterson, you have been a loyal soldier and a strong one here, staying through all of this, and I hope it has been as beneficial to you as it has been for me. Now I would like to hear your comments, sir.

CLOSING REMARKS BY MR. PETERSON

Mr. PETERSON. Well, thank you, Mr. Chairman.

I very much appreciated the opportunity to be here with you today. I, too, need to learn more about this, and it has been a good opportunity to hear from people.

I want to thank the Secretary for taking his time and sitting here all day as well. It has been a long time, I think, since we have had a Secretary of Agriculture that would sit and listen all day, and I think it is going to be helpful in the long run.

I also want to thank you for listening to some people from Minnesota, Mr. Chairman. We appreciate it. We also have some members of the Minnesota Milk Producers who have sat in the front row here all day. We appreciate them being here.

I guess I would just like to say that I was author of the two-tier supply management bill in the Senate. The bill I introduced is the one that passed the House Agriculture Committee, and I haven't changed my position.

But I think that we need to step back and figure out where we can find unity and common ground and figure out what we can do. I don't think we can afford to sit around for another 2 or 3 years for all of us to get the perfect world that we would like to have.

I think Senator Feingold said that pretty well when he said he heard a number of things that everybody agreed on. I think we need to figure out what those things are and we need to get them going so that we can get some stability in the industry, that we can get the best prices out of the marketplace as we can, and I think there is a way to do that.

As I have said, we have had a group in Minnesota that has been looking at this. We have been trying to do at a State level what the Senator is trying to do nationwide here, and it is hard to do.

But I think there are some elements of the self-help proposal that are the outline of something that we could maybe do. I have problems with the board. I think there are things that need to be fixed in there, but I think there are also some positive aspects, and as I said at the beginning, that assessment is going to be there and it just seems kind of dumb if we don't use it to our advantage if we have the opportunity and if we can do it the right way.

So I just would encourage all of us to try to figure out how it is that we can agree. There are not enough of us, especially in the House of Representatives, to do what you want without getting help from other people, and if we are fighting with ourselves, I will guarantee you nothing is going to happen.

And so if I can say nothing else, we need to figure out what the common ground is. I really appreciate, Senator, what you are doing in taking this leadership. We pledge to work with you in Minnesota and on the House Agriculture Committee in any way that we can and I appreciated being here.

The CHAIRMAN. Thank you very much, Congressman. [Applause.]

I couldn't underscore more the Congressman's comments. If we are all divided among ourselves, we don't stand a prayer, and we really have to get some kind of unity.

We have had a tremendous meeting, and one of the reasons we are able to do it is because of the cooperation and the hospitality of the Commonwealth of Pennsylvania. And representing the Commonwealth and his own department and the Governor through all of this has been Secretary Wolff.

Mr. Secretary, I can't thank you enough for the hospitality we have received here.

CLOSING REMARKS BY MR. WOLFF

Mr. WOLFF. Thank you very much, Senator Leahy, Senator Feingold, Secretary Espy, and Representative Peterson.

This morning I welcomed you to Pennsylvania. Now I thank you, thank you for the endurance and the patience you have had today to listen to the legitimate concerns of all those here today.

Somehow, I hope you can take all the information you have heard today, ruminate on it, and somehow digest the facts and somehow find a way that we can maintain the economic viability of our dairy farmers in this country.

Again, thanks for coming.

The CHAIRMAN. Thank you. [Applause.]

CLOSING REMARKS BY THE CHAIRMAN

The CHAIRMAN. As a closing comment, I think of this as being an integral part of our concerns about rural America. I was born and raised in Vermont. I come from a family with all kinds of backgrounds. We have had farmers in our family, my father and mother had a printing business, both my grandfathers were stone cutters.

Throughout all of it, we did not live in corporate enclaves or I don't think there was ever any great wealth anywhere in the fam-

ily, but the greatest wealth we had was the fact that we lived in rural America. I was born in it and I lived in it until I got married.

I used to tell people that we didn't lock the doors. Well, we couldn't. I mean, there was only one door in the place that locked and most of the time we forgot to do that. We would go away for a week at a time and we would always make sure the door was open into the kitchen because neighbors might need something, might need to borrow something, might need to drop something off. Now that is kind of a wonderful way to live.

I contrast it to my home in the Washington, DC area where I live part of the week, which has sirens and alarm systems and everything else on it, compared to my home in Vermont, where again you can just walk in the door.

Now I don't want us to have these hearings and these meetings because we want to have some kind of idealistic Norman Rockwell-type painting of something that isn't there. I want us to have them because if you are going to have producers of food and fiber for America, they are entitled to the same kind of recompense and the same kind of profit and the same kind of life as those who produce other necessities for America. [Applause.]

I said at the opening that it is part of our national security. We are the only superpower in the world today. We are also the wealthiest, most powerful nation on earth. But part of our power, part of our wealth, and part of our security comes from the fact that we are the only major country in the world able not only to feed itself, who faces no threat from any external power in our ability to feed itself, but also is able to feed other parts of the world besides.

Think, all of you, whatever age you are, think what the security of the United States would be if we ever lost that.

Now dairy is only one part of our ability to produce our food and fiber but it is an integral part, and in many ways what we do on our dairy programs is a microcosm of what can be done in preserving that security in all other areas of our food supply.

You have spent a long time here today. Many of you have done it at great expense and great personal inconvenience. Let me tell you, I cannot think of a time, certainly since I have been chairman of the Senate Agriculture Committee, that we have had a meeting that has been as worthwhile as this, and I applaud every one of you and I thank you all so very much.

Thank you. [Applause.]

[Whereupon, at 5:17 p.m., the hearing was adjourned.]

APPENDIX

PREPARED STATEMENTS

HON. HERB KOHL, U.S. SENATOR FROM WISCONSIN

Mr. Chairman and members of the committee, I want to congratulate you for holding this hearing to discuss the present and the future of the dairy industry. Secretary Espy, I commend you for attending this hearing and focusing your attention so intently on the concerns of the dairy sector of this Nation's agricultural economy.

Policies of the Past

For years, efforts to make progressive changes in dairy policy have been stymied by regional conflicts. Many of these conflicts have arisen from the dairy policy structures of the past. For example, I am and will continue to be a vocal opponent of the current structure of the Milk Marketing Order System, a clear relic of the past. However other regions of the Nation have benefited from the inequity of the outdated system, and so it continues.

Decades ago, it made sense to pay farmers outside the Upper Midwest higher prices in order to encourage the development of dairy production in those areas. Now, however, with milk production capabilities well developed all across the Nation, and with modern refrigeration and transportation methods allowing shipments of fluid milk, these structures are no longer necessary or wise. The system has extremely disadvantaged farmers in my State relative to farmers in other parts of the Nation, and has resulted in excessive prices to consumers and taxpayers alike.

During the Bush administration, the Secretary of Agriculture held months of hearings across the country and gathered reams of testimony regarding the need to reform the Federal Milk Marketing Order System. Yet after this dramatic effort, no changes of importance were made. Secretary Espy, in your testimony before the Senate Agriculture Appropriations Subcommittee earlier this year, you made a promise to include the issue of milk pricing as part of your series of agricultural issue forums. I truly appreciate that promise, and look forward to participating in that process. However, I must admit that the farmers of the Upper Midwest are tired of talk and study, and are ready for action and change.

Working with my colleagues from the Upper Midwest, I will continue to do everything in my power to see that that change occurs, whether it be administratively, legislatively, or through the judicial system, such as with the pending Minnesota milk producers lawsuit. The policies of the past must be modernized to reflect current realities within the dairy industry.

The Present

It is no secret that dairy farmers in all parts of the Nation are bearing the brunt of lower prices. The wide volatility in market prices, a fallout of reduced support prices, has prompted reverberations throughout the dairy economy. As traditional dairy regions such as the Upper Midwest adjust to the price volatility, we have seen rapid loss of farms and an increase in the average size of dairy farms. For example in 1985, Wisconsin had 41,000 dairy farmers. Now only 8 years later, that number has declined to 31,000.

As we discuss the current situation of dairy production and marketing, the issue of bovine somatotropin must certainly be reviewed, as well. I am pleased that the

Senate Agriculture Committee included a temporary moratorium on sale and use of BGH/BST in its budget reduction package last week. I feel strongly that this represents good public policy, and does not constitute an anti-technology stance, as some have suggested.

I strongly believe that biotechnology offers great promise to this Nation, and that many of the new products being developed should be viewed in a positive light. However, I reject the notion that economic, social, and budgetary concerns should not be raised with regard to specific products. While the role of the Food and Drug Administration should remain focused on the quality, safety, and efficacy of products under review, the economic, social and budgetary concerns are certainly relevant to the public process as well. Because there are so many such issues with regard to BGH/BST that are yet unresolved, caution becomes the wise approach.

The moratorium offers us the opportunity to move toward resolution of the many tumultuous issues revolving around the use of BGH/BST. Also, at a time when market expansion abroad is so crucial to the future of the dairy industry, the committee's moratorium allows us to prevent the loss of international markets as a result of domestic use of BGH/BST.

Looking Ahead

If there is a time when U.S. dairy producers need to come together in pursuit of common goals, that time is now. I am hopeful that this hearing will be a significant step in the progression toward greater cohesion between the major dairy producing regions of the Nation.

Certainly I would be remiss not to acknowledge the efforts made over the past 2 years by the various dairy cooperatives across the Nation, through the National Milk Producers Federation, to reach consensus on a national dairy self-help plan. This is the single most significant effort I am aware of to date to try to unite dairy producers under a common agenda. Though the plan has just been released, I will study it closely, and will listen carefully to farmers' critiques. In particular, I will be looking closely at the composition and functioning of the proposed dairy stabilization board to determine its responsiveness to the needs of family dairy farmers. Farmers will need to know that if they are paying higher assessments, there will be tangible benefits as a result.

I urge the committee to hold hearings as soon as possible on the National Milk Producers Federation self-help plan, so that these issues can be fully understood and discussed.

In closing, let me say that I am extremely pleased that my new colleague, Senator Feingold, is a member of this committee. I commend him for his tireless work on behalf of Wisconsin family farmers when he was in the State Senate, and I look forward to working with him closely on issues of mutual concern in the U.S. Senate.

Hon. Gary A. Condit, Representative in Congress from the 15th Congressional District, State of California

Mr. Secretary, Mr. Chairman, and dairy industry participants, I would like to take this opportunity to thank you for scheduling this important summit to examine the very serious problems facing our Nation's dairy farmers. As you know, dairy farmers have been continuously experiencing fluctuation in dairy prices. I am pleased that the Secretary as well as the Chairman have convened this meeting to look at the impact of these fluctuations on the dairy farmers and to find solutions despite facing stringent budget constraints.

We all acknowledge that our Nation faces a severe budget crisis that demands fiscal responsibility by our Government. However, in the coming weeks we must judge the dairy industry's proposals in relation to the problems we now face in rural America and our farm sector. The responsibility of facing our financial difficulties cannot be shouldered by farmers alone. A more reasonable answer would be a balanced approach with equitable distribution of the fiscal responsibility throughout the Federal Government. Today's meeting will hopefully provide us with the direction that we need to design a national dairy program that allows dairy farms to continue production, provides a constant, affordable supply of milk and other dairy products to consumers, and keeps Government costs down. It is my hope that a consensus can be built among the different dairy producing regions, the processors, and the producers to support one common agenda that will aid all of the dairy industry.

I want to assure everyone that I will do everything that I can to ensure that our Nation's dairy farmers are given the assistance that they need to maintain their farms. I look forward to working with all of you during the 103d Congress. Thank you again for allowing me to incorporate these ideas into this important summit.

DUMP THE NATIONAL DAIRY BOARD

DAIRY SUMMIT, YORK PENNSYLVANIA
MONDAY, JUNE, 21, 1993
TESTIMONY SUBMITTED BY RUTH SIMPSON,
ASSOCIATE DIRECTOR OF WISCONSIN CITIZEN ACTION

My name is Ruth Simpson, I work as the Associate Director of Wisconsin Citizen Action representing over 100,000 Wisconsin citizens. I am speaking on behalf of the "Dump the National Dairy Board Campaign." (Herein after referred to as the "Campaign".)

Let me explain the purpose behind the Campaign. Farmers are tired of having money taken from their milk checks without seeing any return on their investment. Farmers have spent over $700 million over the last 9 years, yet farm income had decreased. (In Wisconsin, this transfer of wealth amounts to over $12 million a year, or $108 million in the last 9 years.) Farmers felt they could no longer condone the actions of the National Dairy Promotion and Research Board (NDB) and began a petition drive to force a referendum on the continuation on the NDB, as set forth by 7 U.S.C. § 4507.

The reasons behind the petition drive are:

1) **The NDB no longer represents dairy farmer interests, despite contributing over $700 million;**
2) **The NDB has squandered money on excessive salaries;**
3) **The NDB has promoted Bovine Growth Hormone (BGH);**
4) **The NDB panders to corporate interests rather than listening to dairy producers;**
5) **Since the creation of the NDB dairy prices have plummeted and fluctuated greatly, forcing thousands of farm families from the land.**

The petition drive began in October 1991 and continued until December 1992. During that time over 16,000 dairy farmers signed the petition. Signatures came from 47 states. This effort was supported by dairy farmers' work, money and sweat. In fact, 2 farmers took out a loan of $2,750, using 2 tractors as collateral, to pay for for a postcard in *Dairy Herd Management*. The card asked farmers to sign the petition demanding the Secretary call for a NDB referendum.

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On February 25, representatives of the Campaign delivered the petitions to Secretary of Agriculture Mike Espy in Minneapolis, Minnesota. After eleven weeks, the Secretary Espy announced he was calling the referendum for August, 1993. Campaign representatives met with Secretary Espy on May 11 to discuss the upcoming referendum. We asked the Secretary to disallow "bloc voting," make changes in the proposed ballot question and filed a complaint against the NDB for spending money to defeat the petition drive.

In 1983, Congress created the NDB financed by a mandatory 15 cent per hundredweight assessment on all milk. The assessment began being collected in May of 1984, a full 16 months before a general referendum was held among farmers in August of 1985.

When the referendum was finally held in 1985 the coops 'bloc voted' to ratify the NDB legislation. This allowed the same people who wrote the legislation and who received the money directly from the NDB's checkoff, to vote for the farmers paying for it.

The 1985 vote "smacks" of cooperative influence. 120,330 "producers" voted in the election. Cooperatives voting on behalf of their producers accounted for 106,635 of those votes. 4,729, votes were cast by cooperative members voting in opposition to their cooperative board. Those votes were only subtracted from the cooperative vote for a "adjusted" cooperative vote of 101,906.

Compare this with the individual producer vote. You see a big difference. 15,361 votes were cast by individuals. 39.2 percent of the votes favored continuation of the program or 6,020 votes; however, **60.8 percent opposed continuation of the NDB, 9,341 votes.** (See 1985 Referendum Statistics below.)

Individual producers, with no cooperative affiliation, exercising their right to vote, did not favor the NDB. Cooperative members, forced to vote one way, are disenfranchised. We want a level playing field. All dairy producers should be allowed to vote by individual ballot.

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1985 REFERENDUM STATISTICS

	# of Coops Voting	%	Number of Producers	%	Producer Opposing Coop Vote	%	Adjusted Cooperative Vote	%	Individual Producer Vote	%
Yes	147	96.1	106,635	97.1	4,729	97.1	101.906	97.1	6,020	39.2
No	6	3.9	3,202	2.9	139	2.9	3,063	2.9	9,341	60.8
	153		109,837		4,868		104,969		15,361	

Total vote: **Yes** **107,929 89.7%**
No **12,404 10.3%**

As you can see by the 1985 vote, dairy producers voting differently than the cooperative only had their vote "adjusted," i.e. reducing the bloc vote total, it was not counted as a separate "no" vote. ***For example, Coop X has 500 members. It bloc votes "yes" and mails out the ballots to their members. If 490 members voted differently, "no", and return their ballots to the USDA, the vote would be counted as 10 "yes" votes. The "no's" are never recorded separately.*** (USDA has said they are count them differently this time, however, clearly the statute is ambiguous.

The Campaign's strong opposition to bloc voting has led to the filing of a class action lawsuit in Federal District Court in Madison, Wisconsin. The suit challenges the statute's constitutionality.

Farmers charge that bloc voting is unconstitutional since it violates the "one person - one vote" requirements of the 5th and 14th Amendments. The current voting requirements under the National Promotion and Research Order are so cumbersome and skewed in favor of large processing coops, a fair and equitable election is impossible. The lawsuit alleges the following points:

1) As demonstrated in the 1985 referendum vote, farmers voting against their coops are only able to cancel the votes already cast for them in the bloc vote, thus nullifying dissenting votes.

2) Farmers marketing milk through private plants are treated differently than farmers belonging to coops.

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3. Some farmers are mailed ballots, others must drive to County ASCS offices to get them.

4) Individual ballots require names, addresses, coop affiliations, and are verified by checking coop member lists. This violates the right to vote without fear of harassment by coops, which in many parts of the country are the only milk buyers.

5) No other commodity checkoff program allows bloc voting, and because of the perishability of milk, dairy farmers are even more at the mercy of their buyers.

6) The right of Amish and Jehovah's Witness farmers to refrain from voting is violated by coops voting for them.

7) All dairy farmers are directly affected by the dairy promotion checkoff, not just those belonging to coops.

As pointed out by Farmers Union Milk Marketing Cooperative, *"It is critical that dairy farmers have a direct voice in any decision on the future of this producer-funded promotion and research program and how their checkoff dollars are spent. Bloc voting interferes with that right."*

It is the individual farmer who has the 15 cents deducted from his milk check. The money does not come from the operating funds of the cooperative. Bloc voting takes away the individual's right to decide for themselves and their families. Coops, which are marketing agencies, should not be allowed to influence the voting process of an **assessment which only directly affects the pocketbooks of individual farmers.**

According to USDA, 67 cooperatives are once again planning to bloc vote. Already those coops have requested over 66,500 ballots. With bloc voting the election's outcome is already predetermined. That is undemocratic.

In addition, the voting procedures allowed by the Dairy Promotion and Research Act are confusing and treat dairy farmers differently. The three voting procedures are:

1) Coops bloc vote. Coop boards decide whether to bloc vote. If they do so, they **must then send an individual ballot to each member 30 days prior**

to the election. A farmer who wants to vote differently, mails the ballot to the referendum agent by the last day of the election and the cooperative vote is "adjusted."

2) Coops who don't bloc vote can send ballots to their members if they choose. (AMS is encouraging coops to do so.) Otherwise farmers must go to the local ASCS office or call USDA at their 1-800 number to obtain their ballots.

3) Farmers who don't belong to coops must go to the local ASCS office or call the 1-800 number at the USDA to obtain their ballots.

Furthermore, the official ballot is confusing, vague and intimidating. It requires a person to sign their name, address and cooperative affiliation. (See attachment) The question also fails to contain any mention of the 15 cent assessment. The assessment is a tax. For example, if a person votes on a school bond issue, the question must include the tax increase requested. Farmers have a right to know how much this assessment will cost them.

Finally, Farmers maintain that coops receiving money funds directly or indirectly from the NDB -- in some cases whose directors sit on the NDB -- should not be allowed to bloc vote. The Dairy Promotion and Research Act prohibits "funds ... from influencing governmental policy or action." 7 U.S.C. § 4504 (j). The USDA recently sent a letter to all "qualified programs" indicating they could not take a proactive position on the upcoming referendum vote. (See enclosure)

Several cooperatives receive money from the NDB to run "qualified programs." They include:

Allied Milk Producers' Cooperative, Inc.
Associated Milk Producers, Inc. -- Morning Glory Farms Region
Associated Milk Producers, Inc. -- Southern Region
Atlantic Dairy Cooperative
Mid - American Dairymen -- Dairy Promotion, Inc.
United Dairymen of Arizona

Land O'Lakes has received over $275,000 from the NDB for research studies. In addition, cooperatives belonging to the National Milk Producers Federation (NMPF), a federation of numerous dairy cooperatives, ought to be excluded from bloc voting. The NDB provided funding for "economic research" to NMPF.

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The Campaign believes cooperatives receiving money from the NDB violate the Order when they bloc vote.

The Campaign asks Congress to act -- Stop Bloc Voting. Allow democracy to work, let each individual farmer decide the fate of the National Dairy Promotion and Research Program.

The Campaign asks Congress to make the following changes in 7 U.S.C. § 4501 *et seq.*

1) Ban bloc voting. Voting ought to based on "one producer -- one vote."
2) Require the Agricultural Marketing Service to mail out a ballot to each individual dairy producer.
3) Make sure the ballot question is understandable and includes the 15 cent assessment.
4) Make sure the ballot can be cast in secret and is confidential.

OFFICIAL BALLOT | **United States Department of Agriculture**
Agricultural Marketing Service
Dairy Division

OMB NO. 0581-0093
APPROVAL EXPIRES: 3/31/94

INDIVIDUAL PRODUCER | **DAIRY PROMOTION AND RESEARCH ORDER**

See the reverse of this sheet for instructions for completing the ballot. **This ballot and the information provided will be kept confidential.** Please print.

Last Name of Producer | Middle Initial | First Name

(business name, if applicable)

Rural Route and Street or P.O. Box

City or Town | State | Zip Code

DO YOU FAVOR HAVING THE SECRETARY OF AGRICULTURE CONTINUE THE DAIRY PROMOTION AND RESEARCH ORDER?

☐ **YES** Place an "X" in only one space ☐ **NO**

PRODUCER CERTIFICATION

I hereby CERTIFY that during April 1993 I was engaged in the production of milk for commercial use; and

(CHECK ONE BLOCK)

(A) ☐ I am a member of the cooperative association named below that marketed my milk;

(B) ☐ No cooperative association marketed my milk and I sold my milk to the plant named below;

(C) ☐ I sold my milk directly to consumers under the following business name:

Cooperative, plant, or business name of (A), (B), or (C) above

City or Town | State

If this ballot is being cast on behalf of any group of individuals, partnership, corporation, or other business entity engaged in the production of milk for commercial use, I CERTIFY that I have the authority to cast this ballot and will submit evidence thereof if so requested by the Referendum Agent.

Signature

FALSIFICATION OF INFORMATION ON THIS GOVERNMENT DOCUMENT MAY RESULT IN A FINE OF NOT MORE THAN $10,000 OR IMPRISONMENT FOR NOT MORE THAN 5 YEARS, OR BOTH (18 U.S.C. 1001).

Front of Ballot

DAIRY PROMOTION AND RESEARCH ORDER REFERENDUM

Description of the Order

A national Order for dairy promotion, research and nutrition education, authorized in the Dairy and Tobacco Adjustment Act of 1983, was fully implemented on May 1, 1984. The order provides for a 15-cent per hundredweight assessment on all milk produced in the contiguous 48 states and marketed commercially by dairy farmers. A board of 36 dairy farmers appointed by the Secretary of Agriculture administers the Order.

The Secretary of Agriculture, pursuant to Section 116 of the Dairy and Tobacco Adjustment Act of 1983, has called for a referendum among producers during August 5 to August 16, 1993, to determine whether the Dairy Promotion and Research Order should be continued. Continuation of the Order is contingent upon approval by a majority of the producers voting in the referendum.

I. Referendum Period

Voting will be conducted by mail. Completed ballots must be postmarked no earlier than the date of the Referendum Order and no later than August 16, 1993. Incomplete ballots or ballots postmarked after August 16, 1993, will not be counted.

Persons Eligible to Vote

Every producer engaged in the production of milk for commercial use during April 1993 is eligible to vote. In the case of a producer who is other than an individual, the business unit is regarded as the producer. Only one vote is permitted for each dairy farm business unit. A cooperative association may vote on behalf of its producer members. A cooperative that votes must advise producer members by July 6, 1993, as to how it will vote. Producer members opposed to the cooperative's vote may cast an individual ballot.

II. Instructions for Completing the Ballot

1. Complete the producer name and farm business name, if applicable, and address.
2. Vote in the space provided.
3. Complete the certification section. A producer who is a member of or under contract to a cooperative should check block (A) and indicate the name and address of the cooperative. A producer who does not market milk through a cooperative should check block (B) and indicate the name and address of the plant to which the producer sells milk. A producer who sells milk directly to consumers should check block (C) and indicate the name and address of the distribution business.
4. Be sure to sign your ballot.
5. Mail your ballot in the pre-addressed envelope not later than August 16, 1993. If you did not obtain a pre-addressed envelope, mail your ballot to:

Referendum Agent
USDA/AMS/Dairy
Ag Box 0299
Washington, D.C. 20090-0299

If you have questions or need information on the referendum, call USDA toll free at 1-800-858-7501.

Back of Ballot

NATIONAL DAIRY PROMOTION AND RESEARCH PROGRAM REFERENDUM

Questions and Answers

How was the National Dairy Promotion and Research Program started?

The Dairy and Tobacco Adjustment Act of 1983 required the establishment of a national program for dairy promotion, research, and nutrition education. The law directed the Secretary of Agriculture to issue regulations setting forth a Dairy Promotion and Research Order for carrying out the program and to appoint a National Dairy Board, which now consists of 36 dairy farmers.

How is this national program administered?

The law specifies that the National Dairy Board is responsible for running the program. The Board has a staff that assists with the administrative details of this task.

How is the program funded?

Dairy farmers are assessed 15 cents per hundredweight (cwt) on all their milk marketings to fund this program. The assessment is mandatory; therefore, refunds are not allowed. This nationwide assessment currently amounts to about $226 million annually. Producers can specify that up to 10 cents per cwt be used in qualified State and regional promotion programs. The remaining 5 cents per cwt, about $76 million annually, funds the National Dairy Board.

Why is this referendum being conducted?

The law provides that the Secretary of Agriculture must hold a referendum if requested by at least 10 percent of the dairy farmers, or he may call a referendum on his own. Earlier this year, USDA received petitions with over 16,000 signatures requesting a referendum on whether the national program should be terminated. In light of the many dairy farmers asking for a vote, the Secretary decided to proceed with this referendum to provide dairy farmers with an opportunity to vote on whether the 15¢ assessment should continue.

Who is eligible to vote in this referendum?

All dairy farmers who marketed milk during April 1993 are eligible to vote. As set forth in USDA's regulations for the Dairy Promotion Program, only one vote is permitted for each dairy farm business unit, even though more than one person may be receiving a milk check at that dairy operation.

Can a cooperative association vote on behalf of its members?

The law specifically provides that a cooperative <u>may</u> vote on behalf of its members. However, every eligible dairy producer (who is a member of a cooperative) can cast an individual vote, separate from the cooperative's vote, if that cooperative elects to "bloc" vote. If a cooperative elects to "bloc" vote, it must advise its members at least 30 days before the referendum (that is, by July 6, 1993) as to how it will vote and provide each member with an individual ballot. The cooperative's vote on behalf of its members will be adjusted by the number of votes cast by individual members.

Where can ballots be obtained?

Ballots are being made readily available, and there are a number of ways a producer may obtain or will receive an individual ballot:

- Producers who are members of a cooperative that elects to vote on behalf of its members will automatically receive a ballot from their cooperative.
- Many of the cooperatives not voting on behalf of their members will be voluntarily providing their members with a ballot.
- Many processors that are not cooperatives also are volunteering to provide ballots to producers shipping to them.
- Producers who do not receive a ballot in the above manner may obtain a ballot from their local ASCS office.
- Ballots also can be obtained by calling 1-800-745-5417, toll free.

Will my identity and the information on my ballot be kept confidential?

Yes. The ballots, the identity of voters, and the manner in which any person voted, as well as all information furnished on the ballot, will be kept confidential. USDA is taking appropriate measures to assure the security of the completed ballots that it receives.

Not all ballots are the same color. Why?

The use of different colors for the ballots will help simplify and speed up the counting of the ballots. It will be easier, for example, to sort the ballots into various groups for purposes of adjusting the vote of a cooperative association to take into account the casting of votes by individual members.

When will the referendum be held, and what is the deadline for voting?

The official referendum period runs from August 5 through August 16, 1993. Voting will be conducted by mail, and completed ballots must be postmarked no later than August 16. Since most producers will have ballots before the period begins, any ballots that are postmarked prior to August 5 will be accepted.

Who runs the referendum?

The U. S. Department of Agriculture will conduct the referendum. The National Dairy Board is <u>not</u> involved in conducting the referendum or counting the ballots.

If the national program is voted out, will local promotion programs be affected?

The national program will be terminated if more than half of the producers voting in the referendum oppose its continuation. If this occurs, the producer-funded promotion programs now mandated by a number of States may not be affected. Local promotion programs not covered by State laws would again become dependent on voluntary contributions from producers.

Do you need additional information?

A toll-free information phone line (1-800-858-7501) has been established to answer questions related to the dairy promotion program and the producer referendum. As noted above, you also may call to receive a ballot. The individual's identity and questions will remain confidential.

Dorothy J. Naugle
Dairy Marketing Specialist
Allied Milk Producers' Cooperative, Inc.
R.D. 1, Box 73
Hooversville, Pennsylvania 15936

Dear Ms. Naugle:

We have received inquiries from several Qualified Programs (QPs) regarding the status of the referendum on the National Dairy Promotion Program and appropriate activities of the QP Boards with regard to the referendum. The following materials on the upcoming referendum are enclosed for your information:

Federal Register notice
Sample ballot and instructions
Questions & Answers
Toll-free telephone numbers to secure ballots and answer questions regarding the referendum

The Questions and Answers provide information on the conduct of the referendum, including where dairy producers may obtain a ballot and a toll-free 800 telephone number to have questions answered. USDA will be active in working with the media to inform dairy producers of the rules of the referendum and encouraging them to exercise their right to vote on this important issue.

It has been suggested by several QPs that perhaps they should be proactive relative to continuing the national promotion program. It is important that the Boards refrain from any activities which may be in conflict with the legislative prohibition against influencing legislative and/or government policy--in this instance, influencing the outcome of a government-conducted referendum. It is appropriate for the Boards to expend check-off money to keep dairy farmers informed with factual information on Board activities, program developments, and accomplishments. However, it is not appropriate for the Boards to use

such funds to support or oppose any referendum called by the Secretary. This prohibition on the use of the check-off funds applies equally to any organization funded wholly or in part by a particular Board or contractors to the Boards. This prohibition also applies to Board members when acting individually in an official capacity for the Board.

We recognize that the outcome of the referendum will be of considerable importance to the QPs, the National Dairy Board, and dairy farmers in general. Thus, we would consider it appropriate for QPs to encourage dairy farmers to become familiar with the issues involved and to participate in the referendum, either individually or through their cooperative association.

If you have any questions on the referendum, please contact us.

Sincerely,

/s/ W. H. Blanchard

W. H. Blanchard
Director
Dairy Division

Enclosures

cc: Cynthia Carson - National Dairy Board

PRISCILLA ROWBOTHAM, BOSTON MILK PRODUCERS, INC.

The Milk Producers in the Northeast and Maine have expressed many times that they are not making cost of production and many have had to sell their herds because they are losing money every day. Many have tried working two or more outside jobs only to find out that they still can't make it because it was taking all the outside earned money to help supplement the dairy business. Farms that have been in families many years have had to sell out with many sad moments to remember.

It is already known by USDA that farmers are producing at below cost. We just cannot understand how our Government can sit in Washington and let this continue with the possible loss of many farms and food production in the United States. The fact that weather conditions dictate to the farmers without any thought, a person would believe Washington would be more understanding to realize that we could have a very disastrous year or years in this country and it wouldn't take much to end up like some of the other starving nations.

We in Maine, along with many other States in the country, realize that we need some sort of controls (like Canada) to keep some farmers from increasing production by adding many more cows onto their herds. Family farms should also be careful and stay as competitive as possible and still be able to make money. There should also be built into the formula a cost-of-living increase the same as all in Washington get and every other business. We hope some good can come out of this meeting as the dairy farmers in America cannot stand much more of this rollercoaster ride we have been getting.

DOUGLAS GREENAWAY, EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF WIC DIRECTORS

Mr. Chairman and members of the committee: I am Douglas A. Greenaway, Executive Director of the National Association of WIC Directors (NAWD). I am pleased to have the opportunity today to present this statement on national dairy policy as it affects the Special Supplemental Food Program for Women, Infants and Children, known as WIC, under the administrative jurisdiction of the Food and Nutrition Service (FNS) of the U.S. Department of Agriculture (USDA).

I commend you, Mr. Chairman and the members of the committee for your continuing support for the WIC Program and your intense interest in the health and welfare of our Nation's women, infants and children.

NAWD EXPERIENCE AND ORGANIZATIONAL GOALS

Founded in 1983, and headquartered in Washington, DC, the National Association of WIC Directors (NAWD) is a nonprofit voluntary organization of State and local WIC Program staff directors and nutrition coordinators. NAWD has a unique perspective on the operation of the WIC Program. Our members are dedicated to maximizing WIC Program resources through effective management practices and to making the WIC Program more responsive to the nutrition and health needs of women, infants (defined by WIC as 12 months of age and under) and children (defined by WIC as ages 1 to 5 years).

Among NAWD's goals are: the promotion of improved health, well-being and nutrition status for women, infants and children; effective national resource networking to facilitate the communication of ideas, materials and procedures to individuals working in the WIC community; the promotion of good management practices; peer assistance to WIC Program directors at the State and local level; and to act as a resource to Government on issues relevant to the WIC Program and to the health and nutrition of women, infants and children.

WIC PROGRAM BACKGROUND

In fiscal year 1992, the WIC Program served approximately 5.3 million participants per month. Currently, the program is estimated to serve approximately 5.9 million participants per month in the 50 contiguous States, the District of Columbia, Virgin Islands, Puerto Rico, Guam and in 32 Native American nations. It reaches out to over one-third of the Nation's infants.

Eligibility for WIC benefits requires that WIC health professionals document potential participants' health or nutrition risk. Potential participants must demonstrate that their family income does not exceed 185 percent of the Federal poverty income guideline. Preference for service is generally given to pregnant women and infants with at-risk nutrition or health conditions. A lower priority is assigned to children and postpartum mothers at risk of nutrition or health consequences.

Among nutritional risk problems which can qualify participants for eligibility are: abnormal weight gain during pregnancy; a history of high-risk pregnancies; growth problems in children and infants such as stunting, underweight, or obesity; anemia; or an inadequate dietary pattern.

Services are delivered through a variety of local social service agencies or health clinics which have access to health care providers. Today, there are over 8,200 clinics providing WIC services nationwide.

WIC'S BENEFITS

WIC provides eligible participants with supplemental foods, nutrition, education, breast-feeding promotion information and improved access to the health care delivery systems.

Because the program is a nutritionally based education program, local agencies offer WIC participants at least two nutrition education sessions, conducted on either an individual or group basis, within each 6-month certification period. Through these sessions, participants learn about their specific nutritional needs as well as the nutritional needs of their infants and children. Participants are taught how to shop for nutritious foods and how to prepare economical, well-balanced meals. They are also counseled on the importance of regular medical care, the advantages of breastfeeding infants and the dangers of drug and alcohol use during pregnancy.

The WIC Program also provides supplemental foods through monthly food packages which are tailored to meet the special dietary needs of the infants, children, pregnant, postpartum and breastfeeding women in the program. Foods in the packages are selected to provide protein, iron, calcium, and vitamins A and C. These nutrients have been selected as they have been found to be missing from the diets of many low-income women, infants, and children. Among the authorized foods provided in the supplemental food packages are: iron-fortified infant formula, infant cereal, milk, eggs, cheese, iron-fortified breakfast cereal, Vitamin C-rich juice, beans and peanut butter.

WIC'S SUCCESS RECORD

Recent evidence of the WIC Program's successes in improving pregnancy outcomes have contributed significantly to its popularity. WIC has generated enthusiastic supporters in the Nation's corporate boardrooms and vigorous bipartisan support in both houses of the Congress.

Numerous private and public sponsored studies of the WIC Program have demonstrated that WIC is a highly successful program that has achieved significant positive health consequences in a cost-effective manner.

According to a USDA study conducted in five States—Florida, Minnesota, North Carolina, South Carolina and Texas—and released late in 1990, each dollar spent on pregnant women in the WIC program saves from $1.77 to $3.13 in Medicaid costs for mothers and infants in the first 60 days after birth. A later study calculating the Medicaid savings used the full cost of an illness that started within 60 days after birth, regardless of length, revealed an even greater savings of between $1.92 and $4.21 for each prenatal dollar spent by WIC.

Still other studies have indicated that pregnant women on Medicaid who receive assistance through WIC are less likely to deliver premature or low birth weight babies. They are more likely to have healthier babies. These benefits result in enormous Medicaid savings and reduced Federal and State health care spending.

In a May 1992 release of a General Accounting Office (GAO) report, GAO estimated that in 1990, the Federal Government spent $296 million on prenatal WIC benefits resulting in a savings of $853 million in health-related expenditures for WIC infants during their first year of life. On this initial investment, GAO estimated, the total savings in health and education related expenditures over a child's 18 years of life amounted to over $1 billion.

Another study published in the "Journal of The American Medical Association" (September, 1987) demonstrated the efficacy of WIC in significantly reducing the prevalence of anemia and in reducing rates of height and weight abnormalities among children. While a study published in "The New England Journal of Medicine" (November, 1985) indicated a marked reduction in the levels of iron deficiency among children who had participated in the WIC Program.

Clearly, these studies and others suggest that failure to enroll all eligible participants in the WIC program actually costs the Federal Government far more money than is saved. The WIC Program is essential to ensuring that all our Nation's children are physically, emotionally, and developmentally ready for the challenges they will face as this Nation moves to place itself in a more competitive position in the

21st century. The WIC Program is essential to meeting this goal. But WIC is not currently available to the majority of the Nation's eligible 1- to 5-year-old children.

CORPORATE AMERICA COMMITS TO WIC

In testimony before the House Budget Committee last year, the Chief Executive Officers of Prudential Insurance Company of America, AT&T, Honeywell, Inc., BellSouth Corporation, and Sky Chefs, Inc., were unanimous in their support of WIC full funding by 1996. As Sky Chefs, Inc., CEO William S. Woodside put it:

> WIC is a prevention program that works extremely well. How can we justify failing to proceed expeditiously to extend WIC to all women and children who qualify for it? Children born today and in coming years will make up an increasingly large part of the workforce that will sustain our economy * * * for much of the first half of the 21st century. Our neglect of these children not only damages them—it is counterproductive for our society.

Current funding levels allow roughly 60 percent of the Nation's over 9 million eligible women and children to participate in the WIC Program. States have made every effort to maximize the use of WIC funds to increase participation levels. Further adiustments in food benefits could jeopardize the quality of services. Clearly, the need for full funding of the WIC program can be demonstrated.

FUNDING ISSUES

In spite of a nearly threefold increase in funding for the program over the past 10 years, and an almost 150-percent increase in the number of participants served, WIC still falls far short of reaching all of those mothers, infants, and children who are at nutritional or health risk and eligible for the program.

NATIONAL DAIRY POLICY IMPLICATIONS

Clearly, funding the WIC Program for the Fiscal Year 1994, anticipated to be roughly $3.3 bilion—even at the levels the President, NAWD, CBO and OMB have suggested—will not ensure that all of the Nation's eligible women, infants, and children are served.

While NAWD understands and appreciates the concerns dairy farmers have with low milk prices, the Association and its members must point to some of the serious implications that increased dairy prices will have on the participants in the WIC Program. Stated simply, higher prices will mean hardship for food assistance program participants, especially WIC participants.

In 1989 and 1990, unstable farm prices for milk lead to higher dairy prices for consumers. Participants in the WIC Program were especially affected in those years. Thousands were forced off of the program so that States could maintain the integrity of the food package.

In 1991 Congress attempted to fashion legislation that would have provided much needed stability to the dairy industry by developing an inventory management plan. The end result of the plan would have forced a reduction in the quantity of milk produced. It would also have resulted in an increase in the price provided to producers. The bottom line though would have been a dramatic increase in the price to consumers, especially affecting the low-income families, women, infants, and children the WIC Program serves.

The Family Dairy Farm Protection Act of 1991 had the potential to drive milk prices up by as much as 30 cents per gallon. At that time the NAWD argued aggressively for the need to provide for WIC protection language in the bill. If the bill had passed without providing adequate protection, the effects of the dairy price increases would have resulted in the loss of benefits to as many as 200,000 participants per month.

The 1991 legislation did not envision prices anywhere near some of the prices which have been suggested here today. One can only imagine the dramatic impact such prices would have upon the purchasing power of the participants in our program as well as the ability of the program to maintain participation levels. No doubt hundreds of thousands of participants would have to be removed. The effects of price increases would require Congress to appropriate over $100 million annually just to maintain current participation rates. The WIC Program would not reach its goal of full participation by Fiscal Year 1996.

NAWD is also concerned about the impact of dairy price increases on those consumers who exist on incomes just above the income guidelines which permit them to qualify for food and nutrition assistance.

Given these concerns, in any consideration of dairy price increases, NAWD suggests that at a minimum, adequate protection for the WIC Program should provide:

—That it be held harmless from any dairy price increases.
—That monies be made available to States upfront and not after price increases have the effect of forcing cuts in participant roles.
—That allocated monies not be restricted to the reimbursement of purchased dairy products (consider the nightmare required to track those purchases).

CONCLUSION

I urge all participants of this dairy summit to weigh carefully the policy implications that price increases will have upon participants in the Nation's food assistance programs—foodstamps, school lunch, and WIC.

In conclusion, Mr. Chairman, the National Association of WIC Directors looks forward to working with you and the members of the committee as you consider a national dairy policy and its implications for food assistance programs, especially the WIC Program. NAWD's Board of Directors and I stand ready to assist you in any way possible during this process. Again, thank you for the opportunity to come before you today. I will gladly provide you with supplemental information as you require.

THE NATIONAL ASSOCIATION OF STATE DEPARTMENTS OF AGRICULTURE

The National Association of State Departments of Agriculture (NASDA) appreciates the opportunity to submit comments for the record of this very important dairy policy field hearing. NASDA is a nonprofit association of public officials representing the Commissioners, Secretaries, and Directors of Agriculture in the 50 States and territories of American Samoa, Guam, Puerto Rico, and the Virgin Islands. As the chief State agriculture officials, NASDA's members are also keenly aware of the importance of agriculture to their State's and the Nation's economy.

The work of the Senate Agriculture, Nutrition, and Forestry Committee and the resulting policy is vital to the future of the dairy industry. As you are aware, Mr. Chairman, NASDA has been keenly interested in dairy policy for a number of years. One of NASDA's 19 associate organizations is the Dairy Division, and dairy is the only sector of agriculture which currently has a special NASDA task force created to deal with policy. While many important issues face the dairy industry—as outlined today by Pennsylvania Secretary of Agriculture Boyd E. Wolff—NASDA would like to concentrate its statement on a related matter which will impact the future of the dairy industry—bovine somatotropin (bST) and bST labeling.

The Food and Drug Administration (FDA) is currently in the process of reviewing a request for approval of bST. FDA scientists have carefully considered the application and, in the process, have reviewed extensive and comprehensive scientific data concerning the use of supplemental bST. They have concluded, and a number of scientific bodies—including the National Institutes of Health's Technical Assessment Panel, FDA's Veterinary Medicine Advisory Committee, and the American Medical Association—have concurred that the use of bST in dairy cattle presents no increased health risk to consumers. These experts have determined that products derived from cows supplemented with bST do not differ genetically, compositionally, or nutritionally from foods derived from cattle that have not received supplemental bST.

Bovine somatotropin occurs naturally in all dairy cattle. The hormone is produced by the cow's pituitary gland and its essence and level govern the animal's milk production. Supplementing a dairy cow's natural bST increases the amount of the hormone in the bloodstream and stimulates lactation in the animal's mammary glands. The cow, however, possesses no mechanism for transferring the increased bST in blood to milk. Moreover, the cow's increased blood levels of bST resulting from supplementation rapidly degrade by the action of natural body enzymes. For these reasons, supplementation of dairy cattle does not significantly change the concentration of bST in milk or other food products derived from treated dairy cattle. In addition, supplementation with bST does not significantly change any nutritive or other characteristic of milk or other foods derived from the treated cattle.

NASDA wants to sound a cautionary note on policy restricting the use of bST based on factors other than safety. As has been stated, the use of bST has been scientifically proven beyond a reasonable doubt to be safe and the resulting food supply will be as wholesome, nutritious, and safe as it currently is, and possibly even more economical. Therefore, attempts to stop the use of bST cannot be based on safety and must come from other angles, most of which are not based on scientific fact or reality and create a potential for severe harm to the future of agriculture in general. One such argument is that we should not enhance production technology of a commodity in surplus; therefore, bST should not be used because the United States has

a surplus of milk. The corollary to that argument is that we should stop making genetic improvements to corn seed, for example, which will provide higher yields because corn is a surplus commodity. This makes little sense. Genetic advances, biotechnological discoveries, and other new technology finds will only enhance farmers' and ranchers' ability to produce a safe and wholesome food supply for an ever-expanding and hungry world.

With approval of bST imminent, FDA is being urged to require that milk, milk products, and meat derived from bST-supplemented dairy cattle be labeled to disclose this fact. After reviewing the statutory authority provided to FDA on labeling issues and, in light of what has been clearly demonstrated about the characteristics of milk and other foods derived from bST-supplemented cows, it is quite apparent that FDA could not, under present law, justify any action which required the labeling of milk or other food products derived from cows treated with bST. Such a requirement would be inconsistent with the language of the Federal Food, Drug and Cosmetic Act (FFDCA). This conclusion is supported not only by the relevant statutory provisions, but also by numerous agency precedents, current agency practices, and judicial decisions. And, even if there were no legal impediment to such a requirement, its imposition would become the first of many "socially aware" additions to the food label—like "Humanely-Raised Veal"—which would undermine Congress' goal of food labels that provide consumers essential and readily understandable information about nutrition and value.

In light of these facts, many advocates have suggested the use of voluntary labeling to inform the consumer that bST supplementation was not used in the production of the so-labeled product. NASDA strongly opposes this concept. We are encouraging FDA to disallow the use of voluntary labeling and would oppose any legislation which would allow this practice. There is no scientific reason to require mandatory labeling or entertain the concept of voluntary labeling. In fact, allowing voluntary labeling of products produced by untreated cows will lessen the confidence of the American consumer in food labeling in general since no analytical methodology exists to verify the accuracy of such labeling.

FDA (or some predecessor) has regulated food labels since 1906, when Congress passed the first Federal Food and Drugs Act. The law governing FDA's food labeling activities has, of course, become more complex in the near century since food labels became a Federal responsibility. Even as amended by Congress in 1990, however, the food labeling provisions of the present FFDCA embody the core principles reflected in the 1906 Act—the law that introduced the concept of "misbranded." A food is misbranded if its labeling makes statements prohibited by Congress or omits information required by Congress.

Section 8 of the 1906 Act, which governed misbranding of food, had almost nothing to say about what information was required; its focus was prohibitory. It forbade the sale of any food whose label was false and misleading. Thus, from the beginning, Congress' concern was to prevent consumers from being deceived by what sellers said about the food.

In time, Congress became convinced that, if the goal was to inform consumers, it was not sufficient merely to prohibit false and misleading statements. Accordingly, the 1938 Act—which even today provides the core of the law's food labeling provisions—made two significant additions. First, it required all food labels to include certain presumably essential items of information; and second, it allowed FDA to require additional disclosures in order to better inform consumers regarding foods about which sellers made specific claims. FDA's authority to require more than the items of information prescribed by Congress was, therefore, conditional; it depended on the character of the food and on the claims that the seller made for it.

The information required by Congress was itemized in Section 403 of the 1938 Act. According to that section, the label of any food *must* disclose the following information: the ingredients used in the food, in descending order of predominance; the net weight of the contents of the food; the name and address of the manufacturer or distributor; and the name of the food.

In addition to these few mandatory disclosures, the 1938 Act retained the 1906 Act's core prohibition against food labels (or labeling) that were false or misleading in any particular way. And, for the first time, the law allowed FDA to add to the Act's basic requirements when the seller made distinctive claims for a food. The 1938 Act also contained another provision, Section 201(n), that FDA has interpreted as allowing it to require additional information in the labeling of certain foods to assure that consumers are not harmed by the food or misled by representations that a seller chooses to make.

In 1990, Congress, in the Nutrition Labeling and Education Act (NLEA), the first major changes to the food labeling provisions of the Act since its passage, directed and empowered FDA to require a great deal more information about nutrient con-

tent and health value on the labels of most food products. One thing the NLEA clearly did not do was enlarge FDA's authority to require information about characteristics of food unrelated to their nutritional value or their potential, as part of a diet, to help prevent disease.

Almost certainly, any labeling that marketers would be inclined to voluntarily use to promote the concept of "bST free," would be deceptive and misleading because it could not be authenticated. Clearly this violates the intent of current provisions of the FFDCA, and nearly 100 years of congressional direction and intent. Case law has long recognized that deception can result from the use of statements that are not technically false or that may be literally true. (See, *United States* v *Ninety-five barrels of * * * Apple Cider Vinegar,* 265 U.S. 438, 442–3 (1924).) Without question, "bST-free" label claims would be likely to mislead—and thus, contravene the purposes of the Act and run counter to Congress' historical intent. Even if a nonmisleading voluntary label statement could be devised, it would crowd out important messages, limit the value of the food label and undermine the important public health objectives that Congress and the Agency have set forth in their recent food labeling initiatives.

For decades, collection and distribution of raw milk prior to processing have relied on the pooling of milk from various sources, a practice that affords significant economies. This longstanding practice will work against even the best intentioned efforts to segregate milk and is likely to render even a certification scheme impractical unless all producers within a pooling area avoid using bST. Moreover, no analytical methodology exists to differentiate milk or other food products from animals that have been supplemented and those that have not. Accordingly, commingling of milk (either intentionally or inadvertently) from bST-supplemented and non-bST-supplemented herds would be inevitable. Therefore, *processors will not be able to consistently assure or represent that no milk in their products came from bST-supplemented cows.* Under these circumstances, a voluntary labeling program, even one accompanied by a certification scheme, would be inherently misleading because it could not be authenticated.

Without a doubt, the results of a voluntary label which may or may not be accurate will have a devastating impact on consumers' confidence in the labels of all foods, the ability of the Agency to regulate products, Congress' ability to develop laws which are consistent and protective, and the safety of the American food supply in general.

On its face, a voluntary labeling scheme has the apparent virtue of providing a fair compromise between hardened camps. But, an objective reading of the law, nearly 100 years of congressional intent, and the scientific facts militate forcefully against endorsement of such a voluntary initiative. A vast majority of the experts who serve on FDA's Food Advisory Committee and Veterinary Medicine Advisory Committee not only found that FDA had no basis to mandate labeling of products derived from bST-supplemented cows, they also shared the views against a voluntary scheme. Virtually all of the opponents of labeling from these two committees expressed reservation about any type of bST labeling due to the implications for food labeling requirements generally if food derived from bST-supplemented cows were labeled. Most contented themselves with adjectives like "negative," "significant," "enormous," "profound," and "tremendous." To say the least, these terms were not meant as endorsements. Indeed, two members who favored labeling conceded that the implications of such would be "far reaching" and "substantial."

As we move forward in the policy debate, and as we educate the consuming public on the scientific facts and realities of bST—not the myths and scare tactics currently being used by some entities—we must focus the discussion properly. First, bST supplementation is not a trait or condition of foods; it is an experience of the cow. Second, while supplemental bST is a product of biotechnology, the milk and other foods derived from supplemented cows are not. These products do not differ genetically, compositionally, or nutritionally from foods derived from cattle that have not received bST supplementation.

Today, the milk supply and related dairy products are safe, wholesome, nutritious and affordable. After bST is approved as a management tool available to all farmers, small and large, to enhance their production and profitabilities, the milk supply and related foods will be just as safe, wholesome and nutritious as they are today—there may even be a economical benefit to the consumer which will especially assist low-income consumers who need a better balanced diet.

NASDA appreciates the opportunity to share these very serious and constructive comments with the committee. Improper results of this debate could devastate the dairy and biotechnology industries. We trust that once lawmakers have the opportunity to review the facts and implications, we will see a policy which moves the dairy and agricultural industry forward in a positive, safe and economical fashion.

Alabama Farmers Federation Dairy Committee

The American consumer pays slightly more than 10 percent of their disposable income for food. This is a historical low. In addition to relatively low prices production agriculture has provided us with a food supply that is the safest, most abundant, most variety filled, most nutritious, with the most attractive and versatile packaging ever.

The efficiency of the family farm unit with dairy farms leading the way has made this possible.

As producers of dairy products we face a very unique market situation. Because of the perishable nature of our produce and the relative stability of the demand for it, very small surpluses (2–3 percent) can be devastating to producer prices. As overall net income declines dairy farmers no longer have the reserves necessary to weather the drastic price drops experienced over the past 10 years. Dairymen that have been able to avoid outright dispersal have been forced to either increase debt load or sell productive assets to stay in business.

Our milk supply must be stabilized to correct this situation. This would not only help farmers but it would also ensure consumers of an adequate supply of a valuable food at reasonable prices.

Therefore the Alabama Farmers Federation Dairy Committee has for years supported inventory controls (bases and tier prices) and would strongly support legislation that establishes the same. We believe that to be effective a program must be able to control fluid and solid inventories to within 1 percent of actual domestic use.

Surplus production would be sold as export and the producer price would reflect world market price minus marketing costs.

Program changes must be in addition to present Federal order and other marketing systems now in place. Impact on rural communities, fluid milk needs in deficit areas, and new producers must be addressed in any program.

To be effective dairy legislation must accomplish the following:

1. Milk supplies must be balanced with actual demand.
2. Dairy product needs for Government programs should be available to Government agencies at a low cost.
3. Export markets must continue to expand to provide for expansion-minded producers.

American production agriculture has been and is the envy of the world. Let us take steps now to ensure that it always will be.

Presley Dairy

Position Statement—Tim Presley, Dairy Farmer, Opp, AL; Dairymen, Inc. Nashville Division Board Member, representing members from the Panhandle of Florida and Alabama.

The facts and figures about the cost and profitability of dairy farming have been discussed and reviewed repeatedly for the past several years. The question isn't "Do we have a problem?", but "What is the best way to create a program for the future generations of dairy farmers?" Dairy farmers have done more than should be expected. We have helped finance Government feeding programs, we have diverted milk, had a whole herd buyout, become more efficient, had assessments taken out of milk checks and, in general, we have failed miserably in creating anything but chaos and cheap milk. The only way that dairy farmers can sell their labor and the labor of employees is through milk sales. I know most consumers would not work for wages paid 10 years ago, and dairy farmers should not be expected to do so either.

The farmers I represent and I believe that inventory controls are the best way to develop a long-term solution for dairy farmers, and to issue consumers an adequate supply of milk at reasonable prices. We feel that the following points should be included in future programs:

1. The program would leave the present Federal order system Class I, II, III, hauling differentials, and current State programs as they are at the present time.
2. The program must cost taxpayers less than the present program.
3. The program should be long term, allowing producers and processors a stable market environment in which to operate their businesses.
4. The program must hold individual producers accountable for their production and marketing decisions. Accountability should be in the form of an assessment on overproduction.

5. Each producer would be assigned an annual base for milk marketed. The base would be defined as a percentage of the producer's marketing history.
6. To protect the integrity and stability in each market, a producer's base cannot be transferred to another region, unless there is a need in the market that can't be met by the producers in that market.
7. The program should hold the Secretary of Agriculture accountable for using such programs as DEIP and EEP, already provided by Congress to keep dairy products competitive on the world market.
8. The program should have provisions to allow new producers, especially young farmers, the opportunity to enter the dairy business in an orderly fashion.
9. The program should address fluid milk needs in deficit areas and the cost associated with supplying those markets.

THE NATIONAL DAIRY CAMPAIGN

In the past 12 years, 55 out of every 100 dairy farmers have called it quits. The remaining 145,000, who produce 152 billion pounds of milk annually, do so with raw milk receipts which mirror a decade ago and a support price $3 less.

Government statistics indicate we operate below the cost of production; our daily chores are performed with patched and repatched equipment. We are required to meet 21st century environmental regulations, watch equities erode, and send our children into the world of business and service, for dairy opportunities for the young are few.

Time is growing short. Our Nation, especially our farm organizations, milk marketing cooperatives, and elected officials, must continue to stress the importance of the family farm unit in producing our dairy product needs, and legislation must improve stability and profitability.

Our current system allows for a very small surplus, just 2 or 3 percent, to bring very large price decreases. Our portion of the retail dollar, during the time frame used in this comparison, has plunged from 49 to 36 percent.

The compromised, stop-gap efforts over the past years have only provided a band-aid instead of a solution. It is time to lay all biases aside in our industry and develop a plan which will stop the continuing exit of our family dairy farmers.

To address these problems, any legislation must include these basic points:

1. *USDA cost of production:* USDA, through the vast network of statistical services, provides a very detailed cost of production for raw milk. Today's producer prices average less than the actual cost. Any plan to improve profitability must use the established criteria and include a cost of production index in developing price guidelines.
2. *Inventory controls (bases and tier pricing):* Determine domestic dairy product needs, including Government needs, as compared to total production. Establish producer bases to provide a system to separate excess, or surplus, production.
3. *Exports:* Develop a market for the 2 to 3 percent that has driven prices in past years, plus give the expansion-minded producer the best possible price based on such exports. If necessary, create a Board to develop and oversee the export market, funded through this production only.
4. *Budget:* Dairy product needs for Government programs can be provided at a very low price. The 6 to 7 percent of production needs can be separated from total production, each producer assigned his share, and priced to aid in lowering Federal budget expenditures, in exchange for legislative mandates on inventory controls. Therefore few taxpayer dollars will go to the dairy program.
5. *Other considerations:* Any changes must be in addition to present Federal and State order systems now in place. Impact on rural communities, fluid milk needs in deficit regions, and new producers, especially young farmers, must be addressed in any program.

These points must be included in any program to solve the problems we face as a dairy industry and offer advantages to consumers and taxpayers.

LETTERS

HAROLD J. HOWRIGAN, ST. ALBANS COOPERATIVE CREAMERY, INC.
ST. ALBANS, VT, *June 29, 1993.*

Hon. PATRICK J. LEAHY,
Chairman, Committee on Agriculture, Nutrition, and Forestry, U.S. Senate, Washington, DC 20510.

DEAR SENATOR LEAHY: I very much appreciated your time and efforts in organizing the National Dairy Summit in York, Pennsylvania. This was a great opportunity to discuss and hear about various dairy farmer issues and suggested dairy policies.

After considerable reflection on the summit, I would like to reconvey to you some of my thoughts and enter them as part of the record.

1. It was pointed out very eloquently and passionately that there needs to be an increase in our farm price of milk and ultimately improve net producer income.
2. It is also very clear that we need to achieve some real *stability* in prices of our dairy products at the farm level in particular.
3. Before we can expect to have any real sustained increase in our prices, we must first have that stability and also we must manage our overproduction and inventory levels.
4. I believe that the self-help or dairy stabilization initiative proposal will accomplish those goals. However, it will *not* guarantee $15–$18 per cwt milk. This proposal, given the time for the supply/demand factors to work, provides us a much greater price than we are now getting—without the shackles of a quota system such as they have in Canada.

In listening to many of the farmers, this system worked well for a time, but now is a disaster.

I live near the Canadian border and our local papers frequently carry the auction advertisements of the nearby farms that are being sold in Quebec and they are much more numerous than here in Vermont. They range from 35–80- to 150-cow herds, with most having between 45–65 cows.

They need $20–$25 per cwt because the price of their quota is greater than the price of their farm and cattle and machinery, etc. Therefore, when analyzing their financial structure, they have double the debt load.

Again, I would point out that our dairy co-ops provide a service for the industry. The farmer members have a financial investment in facilities to process the extra milk that their members produce as well as the independent dairymen who feel that their responsibility ends when the milk leaves their milk house.

I was heartened with the positive attitude and sense of commitment that you and other congressional leaders expressed at this summit in improving dairy farmers' income. This summit gave me that reassurance and encouragement that we are and will continue to work together to address the needs of our agricultural industry.

I commend and thank you and other dairy leaders, Secretary Espy, Senator Feingold, Representative Peterson and Pennsylvania Secretary of Agriculture Wolff for their attendance and attention to our Dairy Summit Meeting.

Sincerely,

(Signed) HAROLD J. HOWRIGAN,
President.

IRENE M. MOLISON,
HANOVER, PA, *June 23, 1993.*

Hon. PATRICK J. LEAHY,
Chairman, Committee on Agriculture, Nutrition, and Forestry, U.S. Senate, Washington, DC 20510.

DEAR CHAIRMAN LEAHY: I was at the Dairy Summit held in York, PA on June 21. I wanted to speak to you then, but there were so many others that also wanted to talk, so I'm taking your suggestion and writing to you, hoping you will include my thoughts along with the others. I told my husband in the morning, "I am angry enough to to talk out in a meeting." That is not like me at all, I usually listen.

There are lots of problems down on the farm, a lot of them caused by the low milk price we have been getting. I'm not very well informed on all the statistics related to the dairy industry, but I do pay the bills for our farm operation, and I also know how much my husband is working, just to try to stay in business. We milk 140 cows and have 1 full-time employee, and 4 part-time people, and our 16-year-old daughter helps to milk too. In order to pay our people a fair wage, we are taking

away from the family. I get very angry when I see how much the hired help is getting, and how much more the family is working, for what we get from it.

My husband is 56 years old, and has very little time left for the family after he is through with all the work he has to do, because he cannot afford to pay extra for the hired help to stay and do some of the work. If we were paid a fair price for the milk, we could have it a little easier.

I'm sure you have heard it lots of times before, but the price we have to pay for everything we have to buy for the farm is so out of line with what we get paid for our milk. There is just no fairness about it. I get very angry when I go by a car dealer, and know that I can't afford to trade my old car in for one I can trust to get me where I need to go. We have more debt now than we ever had in our life. All of it is for the farm expenses, and we are not even paying on a farm. We owe $119,000.00, and do not get anything paid except the payments each month. This is just not right!

I am really tired of this business, as I'm sure you would be too, if you were in it. What is there to look forward to? We were told to "hang in there," but is there any hope at all, anything to look forward to? If there is anything you can do, we sure would appreciate it. We, like so many others, do not want to give up, but we may be forced to.

Sincerely,

(Signed) IRENE M. MOLISON

WYTHE B. SHARITZ,
WYTHEVILLE, VA.

Hon. PATRICK LEAHY,
Chairman, Committee on Agriculture, Nutrition, and Forestry, U.S. Senate, Washington, DC 20510.

DEAR CHAIRMAN LEAHY: I am a dairy farmer in Virginia and I would like to comment, for the record, relative to your hearing in York, PA. Time did not permit me to speak there on June 21st.

First, my sincere thanks to you and Secretary Epsy for taking time to listen.

Here on our family farm we have a system that we use in settling disputes or disagreements. First we discuss the problem, then we exchange places (i.e., management with employees, etc.) and discuss it further. This system helps us see the problem from another point of view.

As I see the problem confronting dairy farmers, it is simply that we need a higher price for our product. Most everyone is in agreement that the additional money must come from the marketplace. Now I place myself in the shoes of the consumer. This is easy because I too am a consumer. The dairy farmer says he needs more money for his milk. As a consumer, I ask "If I have to pay more for my dairy products, what else can you give me in return?" The farmer replies, "I can give you an adequate supply of quality products."

If no change is made, the numbers of family dairy farms will con- tinue to decline and the supply of dairy products will be provided by large dairies in geographical areas that are conducive to inexpensive housing and feed supplies. In time, these areas, such as the Southwest United States, will be the only areas providing dairy products. Once the dairy industry is concentrated in a certain geographical area, we are subject to high prices or no supply at all should a catastrophy such as drought, disease or even a strike occur.

The answer to this lies in maintaining a production base all over the United States as we now have. This way a drop in production in any certain area can be covered by increased production in other areas. I believe that mandatory two-tier pricing will accomplish this goal.

One additional point I would make has to do with the large amounts of food industry byproducts that dairy farmers feed their cows. Most of these products are not economical to haul long distances. Therefore they would have to be disposed of at a cost to the consumer or taxpayer if not recycled through the dairy cow on a local farm. Another example of this is the paper used for bedding dairy cows. Not economical to haul long distances, it is used locally and returned to the land with manure instead of filling up landfills at the taxpayers expense.

Sincerely,

(Signed) WYTHE B. SHARITZ.

THOMAS E. DONLEY, YORK COUNTY CHAMBER OF COMMERCE,
YORK, PA, *June 21, 1993.*

Hon. MIKE ESPY,
Secretary, U.S. Department of Agriculture, Washington, DC 20250.

DEAR MR. SECRETARY: I want to call your attention to a joint venture being developed involving the agriculture Extension Service, U.S. Chamber of Commerce Federation and 4–H clubs across the United States.

The program is called Excelling Quality Youth Programs (EQuYP), and is being led within the Agriculture Department by Dr. Joel Sobitsky, National 4–H program director.

I have been briefed on the program through my involvement on the advisory board to the U.S. Chamber's Center for Workforce Preparation and Quality Education.

The program is a strategic partnership to improve the career skills for America's youth in 4–H by exposing them to life skills and career skills and career skills experiential training through their 4–H programs.

Much as the Boy Scouts has reinvented itself to serve the needs of youth in America's cities, this program promises to prepare 4–H youth in rural and suburban areas across the United States such as York County for the jobs and economic opportunities of the future.

The York County Chamber of Commerce is one of the 2,700 local chambers which is part of the U.S. Chamber Federation. With a modest amount of public and private curriculum development and marketing funding the EQuYP program can be up and running in hundreds of communities across the United States in 1994. We urge you to do all you can to speed the program along within the Agriculture Department and to consider using York County as a pilot site in which to test the program.

We believe that EQuYP exemplifies President Clinton's call for volunteerism, and public-private partnerships in community service and work force preparation.

Sincerely,

(Signed) THOMAS E. DONLEY.

EQuYP

EXCELLING QUALITY YOUTH PROGRAMS

EXCITING NEW APPROACHES TO:

- JOB CREATION
- JOB ENRICHMENT
- QUALITY LEADERSHIP SKILLS FOR YOUTH
- COMMUNITY REVITALIZATION
- ENTERPRISE DEVELOPMENT

INNOVATIVE LINKAGES BETWEEN:

- BUSINESSES
- CHAMBERS
- GOVERNMENT
- NONPROFITS
- YOUTH PROGRAM PROVIDERS

EXTENSION SERVICE

THE SPIRIT OF ENTERPRISE · U.S. CHAMBER OF COMMERCE

H H H H

NATIONAL STRATEGIC PARTNERS

PROJECT EQuYP: Excelling Quality Youth Programs

- New Strategic Partnership
  - Extension Service/4-H
  - U.S. Chamber of Commerce
- Improved Career Skills for America's Youth
- Innovative programs offering exciting new appraoches to:
  - Job Creation
  - Job Enrichment
  - Quality Management & Leadership
  - Community Revitalization

EQuYP
EXCELLING QUALITY YOUTH PROGRAMS MODEL

EXPLORATION EXPERIENCE EMPLOYMENT

NATIONAL STRATEGIC PARTNERSHIP

U.S. CHAMBER OF COMMERCE
U.S. DEPARTMENT OF AGRICULTURE
EXTENSION SERVICE/4-H

Innovative programs offering exciting new approaches to:

- ❑ JOB CREATION
- ❑ JOB ENRICHMENT
- ❑ QUALITY MANAGEMENT
- ❑ COMMUNITY REVITALIZATION

"Intrepreneur" Entrepreneur

MICRO BUSINESS
Team Leader Associate Apprentice Partner/Owner

SMALL BUSINESS
Assistant Associate Apprentice Intern/Employee

CORPORATE
Assistant Associate Apprentice Intern/Employee

PUBLIC SECTOR
Assistant Associate Apprentice Intern/Employee

NONPROFIT
Assistant Associate Apprentice Intern/Employee

Age 7 12 14 15 16 17 18 19 20

LIFE SKILLS
Understanding Self
Interpersonal Relationships
Problem Solving & Decision Making
Information Management
Managing Resources
Working with Others

CAREER SKILLS
Basic Business Processes & Principles
Quality Management & Process Improvement
Quality Performance & Leadership for Change
Basic Economic Analysis & Planning
Entrepreneurial & "Intrepreneurial" Techniques
Strategic Planning/Leading to Excellence

MARVIN L. HOLLEN,
NYSSA, OREGON.

Hon. PATRICK J. LEAHY,
Chairman, Committee on Agriculture, Nutrition, and Forestry, U.S. Senate, Washington, DC 20510.

DEAR CHAIRMAN LEAHY: I am a dairy farmer from eastern Oregon. I was at your dairy summit in York, PA. Thank you for holding this important summit. I have been a proud dairy farmer for 23 years. We have had good times and bad along the way. We have always been efficient and have made it. Now with the lower prices since 1990 and demands by the EPA, we face liquidation. Twenty-three years of hard work, sacrifice, and dreams will be gone, along with hope for a retirement. I am 55 years old.

I hope that you will look hard at the plan being put together by Representative Sanders of your State, and also the points made by the 1993 Dairy Campaign and National Farmers Union. I have serious reservations about the National Milk Producers plan, for the assessments will kill smaller producers before it drives the price up, and we will still see plants full of cheap milk, CCC buying too much product, and dairymen going out of business—yet more trouble for rural America and this country's tax base.

Dr. Young testified that there is not a problem, that we are losing farmers at the same rate as the rest of the world. We are leaders, not average. America is too great to be average. Another person said that two-tier [supply management] would divert from a market price. Each fall before the new models come out, our auto industry has sales to clear last year's surplus. So, two different prices, which is two tier. We wouldn't expect them to produce next year's [car] at less than the cost of production just because they had a small surplus that had to be disposed of at a lesser price.

Please consider us, the family farmers, as a vital part of our great country.

Thank you.

Sincerely,

(Signed) MARVIN L. HOLLEN,
Dairy farmer.

THE AMERICAN JERSEY CATTLE CLUB/NATIONAL ALL-JERSEY INC.,
REYNOLDSBURG, OHIO, *June 9,1993.*

Hon. PATRICK J. LEAHY,
Chairman, Committee on Agriculture, Nutrition, and Forestry, U.S. Senate, Washington, DC 20510.

DEAR CHAIRMAN LEAHY: The 3,613 dairy farmer members of The American Jersey Cattle Club and National All-Jersey Inc. commend your efforts to gather information on how to improve the Nation's dairy industry by holding the National Dairy Summit.

We realize the Summit will discuss many important issues. There are two items our members encourage you to include in the Summit. They are multiple component pricing of milk and higher minimum solids-not-fat standards for fluid milk. The nationwide adoption of these two programs will significantly strengthen the Nation's dairy industry for all parties concerned: producers, processors, consumers, and taxpayers.

Multiple Component Pricing

The skim-butterfat milk pricing system, which is currently used in all but two Federal Milk Marketing Orders (FMMO) and all State milk orders except California is not market oriented nor is it equitable. It does not give dairy farmers economic incentives to produce the kind of milk consumers are demanding. Under skim-butterfat pricing, dairy farmers are paid the same price for a pound of water as a pound of protein. This system encourages dairy farmers to produce more volume or "white water" with little or no regard for protein.

Consumers, through their purchases of dairy products are telling us the skim-butterfat system is outdated. Today, consumers are drinking more lowfat and skim milk than whole milk. Cheese consumption has doubled in the past 15 years. Consumer purchases indicate that the nonfat or skim portion of milk that contains the protein is of growing importance and value. The industry is trying to respond to consumers' changing taste in dairy products, but the skim-butterfat milk pricing system is holding us back. Consumers are telling us they want one thing and our milk pricing system is telling us to produce another.

Multiple Component Pricing (MCP), a milk pricing system that prices milk based on its most valuable components in accordance with their use in consumer-purchased products, is market oriented and equitable. MCP gives dairy farmers the economic incentive to produce the milk component consumers are demanding—protein.

A main reason for the urgency of MCP is the shift in milk's value. The effect of the milk price support adjustments from fat to skim have increased the value of the skim portion of milk relative to milkfat. Today, skim represents 75 percent of milk's total value compared to 38 percent in 1970. As the skim continues to increase in value, it is imperative to price a component in the skim. An increase in the skim portion of milk without MCP gives dairy farmers a greater economic incentive to increase the volume of milk with no regard for milk's nutritional components.

Multiple Component Pricing implemented nationwide will generate many benefits. Dairy farmers will have the economic incentive to breed, feed, and manage their herds over the long term to increase their production of milk components of greatest demand and value. If dairy farmers are given the correct monetary signal, they can and will respond. When dairy farmers respond to a market-oriented milk pricing system, everyone benefits.

These benefits include:

- Providing consumers with a more nutritious and flavorful fluid milk product
- Increasing the efficiency of manufacturing plants
- Helping keep dairy products competitive with other foods
- Utilizing more milkfat by increasing the production of protein relative to milkfat
- Providing the dairy industry with a milk pricing system that can adapt to future technologies and changes in dairy product consumption.

The bottom line is a stronger and more prosperous dairy industry, one that is responsive to the consumer.

Higher Minimum Standard

In addition to multiple component pricing, the adoption of higher minimum solids-not-fat standards for fluid milk as proposed in Senate Bill 793, "The Healthier Milk Act," will also strengthen the dairy industry. The benefits of adopting higher minimum standards include:

Increasing fluid milk sales. Consumers prefer the taste of higher solids fluid milk versus milk at the current standards level. Numerous consumer surveys have been conducted that show this. Besides better flavor, milk at the higher standard level provides more nutrition, especially protein and calcium, than milk at the current level.

Increasing commercial disposition of and decreasing Government purchases of solids-not-fat. In order to meet the higher standards proposed, additional nonfat solids would be required for fortification. Commercial use of nonfat solids to meet higher nutritional standards for fluid milk would virtually eliminate Government purchases of nonfat dry milk powder and increase commercial use.

Increased dairy farmers' income. Dairy farmers' income would increase as a result of the first two reasons listed above.

Providing consumers with high-quality fluid milk products at an economical value. Yes, the adoption of higher minimum standards does have the potential for increasing retail fluid milk prices. If higher minimum standards does increase the consumer price of milk, the extra value consumers would receive more than outweighs any additional cost. These additional benefits include a more nutritious and flavorful milk product. Consumers would receive more protein and calcium per dollar spent for milk of higher standards than they do at the current level.

Perhaps more importantly, it provides these benefits with little additional Government involvement.

Yes, we realize the Dairy Summit will be presented with numerous programs to improve dairy farmer income, control surplus milk production, increase milk sales, and provide consumers with quality dairy products at the best value possible. Very few programs can meet these four objectives. Even fewer have widespread industry support. However, the nationwide adoption of multiple component pricing and higher fluid milk nutritional standards does. Plus, they have widespread support from producer, processors, manufacturers, and consumers.

Our 3,613 dairy farmer members strongly encourage the National Dairy Summit to include the adoption of these two programs in its recommendations.

Sincerely,

(Signed) CALVIN COVINGTON,
Assistant Secretary/Treasurer.

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